



FIH[®] 富智康[™]

FIH Mobile Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

2015
ANNUAL REPORT

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CORPORATE INFORMATION

FIH MOBILE LIMITED (THE "COMPANY", AND TOGETHER WITH ITS SUBSIDIARIES, THE "GROUP")

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

LEE Kuo Yu

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

COMPANY SECRETARY

LAW Sai Hay

REGISTERED OFFICE

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

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISORS

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

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of Beijing
Bank of China
China Guangfa Bank
China Merchants Bank
Chinatrust Commercial Bank
Citibank
Industrial Bank
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

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to report to you on the Group's 2015 outstanding performance. Continuing the strong momentum of 2014, we were able to achieve very good results amid market volatilities in 2015 and pushed ahead with the strategic plan for the transformation of the Group.

Through tighter expenses control and better operation leverage, we managed to grow our operating profit and net profit to US\$310 million (6% year-on-year growth) and US\$229 million (35% year-on-year growth), respectively. With a more diversified customer base, we were able to overcome some challenges and delivered US\$7,451 million sales revenue (9% year-on-year growth).

The Group managed to expand its foundation for success by further tapping into the leading smart phone customer base. We have added a number of mobile phone market share winners in our customer portfolio and expect to drive significant business growth through our partnerships with them. Our metal casing capabilities, bundled with our system-level design expertise and the Foxconn Group's strong component support, have always generated strong customer interest and demand. Hence we currently have been serving 6 out of the top 10 smart phone leaders in the world, as well as some of the rising brands.

Looking for the next market of opportunities, we kick-started our emerging market efforts from 2013. As China smart phone sales reaching the maturity stage, India is notably the next significant single market with smart phone shipment exceeding one hundred million sets in 2015. Our local team was able to re-activate our assembly operation in a few months' time during the second half of the year and enabled millions of phone shipment by year end to support the Indian Government's "Make-in-India" policy. It was also well received by our customers and hence we have been planning further expansion of our capacity there.

While selectively deploying more resources in production capacity, we continued to invest in services and mobile internet players as part of our core strategy. In Taiwan, China, India and US, we have actively invested engineering, manufacturing and financial resources into up-and-coming companies that could lead the next business model and technology changes. The US\$200 million investment in India's leading e-commerce platform snapdeal.com is one of such examples. We believe that there is a wave of services and technology innovation in mobile internet field that would require our hardware and technical support. Lack of the legacy infrastructure, emerging market players could prove to leap-frog some of their peers in the developed countries in years to come. We want to play an important role in such a wave and help fuel innovations through such cooperation and partnerships.

Looking ahead, the smart phone industry remains highly unpredictable and volatile. We need to keep on tight control of our operations and continue to execute well in order to sail through the troubled waters in 2016. While there will be challenges, we believe that there will also be opportunities for the Group to embark on the next cycle of advancement. I would like to thank all our shareholders and employees for all their kind encouragement and hard work in 2015 and look forward to receiving the continuous support in the year to come.

With best regards,

TONG Wen-hsin
Chairman

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

TONG Wen-hsin (Mr.), Chinese (Taiwan) and aged 50, is now the Chairman and an executive director of the Company. He has over 24 years of experience in the investment banking, finance and information technology fields as well as general management experience. He joined the Company as director of investments and investor relations in July 2004 and has been a member of the Company's senior management team since then. During the period from May to December 2012, he was the head overseeing and supervising the respective functions and responsibilities of different departments of the Company, including its investment management, investor relations, accounting/tax, finance, business control, operation management, legal and compliance, company secretarial and internal audit services departments. Mr. Tong is the chairman of Chiun Mai Communication Systems, Inc. ("CMCS"), a subsidiary of the Company in Taiwan. He is also a director of certain other subsidiaries of the Company, namely FIH Co., Ltd. and Fu Hong Enterprises Limited respectively. He resigned as a director of Ways Technical Corp., Ltd. ("Ways Technical"), a limited company incorporated in Taiwan and whose shares are traded on the Taiwan OTC Exchange, effective 25 June 2013. Before joining the Company, Mr. Tong worked at ABN AMRO Rothschild, where he was a director of the equity capital markets department, responsible for capital raising and underwriting of various equity and equity-linked issues of Asian corporate clients. Prior to that, he worked in the equity capital markets department of Jardine Fleming and Robert Fleming (which is now part of JP Morgan) in Hong Kong and London, as well as in the marketing and sales departments of International Business Machines Corporation in Taiwan. Mr. Tong holds a MBA degree from London Business School, United Kingdom, which he obtained in 1995.

CHIH Yu Yang (Mr.), Chinese (Taiwan) and aged 57, joined the Company as an executive director in August 2009. He is the chief executive officer and the chairman of the corporate governance committee respectively of the Company. Mr. Chih is a director of CMCS, a subsidiary of the Company in Taiwan which is the primary mobile handset design services arm of the Group. Mr. Chih joined the Group in 2005 when the Group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. He is also a director of certain other subsidiaries of the Company, namely Evenwell Digitech Inc., Execustar International Limited, FIH Technology Korea Ltd., Greater Success Investments Limited and Transworld Holdings Limited respectively. He has 36 years of extensive experience in the communication industries. From 1997 to 2001, Mr. Chih was the vice president and general manager of Communication B.U. in BenQ (formerly Acer Communication and Multimedia, Inc.) where he was responsible for BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hua University in Taiwan in 1980.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Dr. LEE Jer Sheng (Mr.), Chinese (Taiwan) and aged 52, joined the Company as an executive director in June 2010. He is a member of the corporate governance committee of the Company. Dr. Lee joined the Company as director of mechanical production in June 2004. Before joining the Company, he had worked for 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only), the ultimate controlling shareholder of the Company (“Hon Hai”) since February 1998 and had been one of the principal managers responsible for the handset manufacturing services business of Hon Hai, its subsidiaries and associates (collectively, the “Hon Hai Group”) since January 2002. Dr. Lee has almost 24 years of mechanical engineering and production management experience. He is also a director of certain subsidiaries of the Company, namely Ease Cheer Holdings Limited, Eastern Leap Holdings Limited, Eastern Source Investments Limited, Everfame Technologies Limited, Excel True Holdings Limited, Extra Harmony Limited, Extra High Enterprises Limited, FIH Co., Ltd., FIH India Private Limited, 富智康精密組件(北京)有限公司 (FIH Precision Component (Beijing) Co., Ltd. for identification purposes only), FIH Precision Electronics (Lang Fang) Co., Ltd., FIH (Tian Jin) Precision Industry Co., Ltd., Grand Champion Trading Limited, 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only), Success World Holdings Limited, Transworld Communication Systems Inc. and Wise Excel Limited respectively. Dr. Lee is also a director of Ways Transworld Inc. (a joint venture of the Company). He also serves as a director of Ways Technical. Prior to that, Dr. Lee held various positions in automotive industry in Taiwan. Dr. Lee received a B.S. in Aerospace Engineering from National Cheng Kung University, Taiwan in 1986 and a Ph.D. in Mechanical Engineering and Applied Mechanics from the University of Michigan (Ann Arbor), US in 1993.

Dr. LEE Kuo Yu (Ms.), Chinese (Taiwan) and aged 57, joined the Company as a non-executive director in May 2013. She is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. Dr. Lee joined Hon Hai in April 2008 and is now a vice president in charge of Business Administration in Hon Hai. Prior to joining Hon Hai in 2008, Dr. Lee was the chief financial officer of CyberTAN Technology Inc., a Taiwan listed public company. She has over 33 years of operation and corporate management related experience. Dr. Lee obtained a Bachelor of Arts degree in Economics from National Taiwan University, Taiwan in 1981 and a Ph.D. in Business Administration from the National Chengchi University, Taiwan in 2001.

LAU Siu Ki (Mr.), Chinese (Hong Kong) and aged 57, joined the Company as an independent non-executive director in December 2004. He is the chairman of the audit committee, remuneration committee and nomination committee respectively of the Company. He has over 30 years of experience in corporate finance, financial advisory and management, accounting and auditing. Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a member of both the Association of Chartered Certified Accountants (“ACCA”) and Hong Kong Institute of Certified Public Accountants. Mr. Lau was a member of the World Council of ACCA from 2002 to 2011 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. Mr. Lau also serves as an independent non-executive director of Binhai Investment Company Limited, China Medical & HealthCare Group Limited (formerly known as COL Capital Limited), Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Samson Holding Ltd. and TCL Communication Technology Holdings Limited, whose shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). He is also an independent supervisor of Beijing Capital International Airport Co., Ltd., whose shares are listed on the Stock Exchange. Mr. Lau also serves as company secretary of Yeebo (International Holdings) Limited and Hung Fook Tong Group Holdings Limited (whose shares are listed on the Stock Exchange) and Expert Systems Holdings Limited (whose shares will be listed on the Stock Exchange). He resigned as an independent non-executive director of UKF (Holdings) Limited, whose shares are listed on the Stock Exchange, effective 15 March 2016.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Daniel Joseph MEHAN (Mr.), American and aged 71, joined the Company as an independent non-executive director in July 2007. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. He was the chief information officer of the Federal Aviation Administration from 1999 to 2005. Prior to that, Dr. Mehan was senior level executive who held a variety of leadership positions at AT&T for over 20 years, including international vice president and international chief information officer. Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development. Dr. Mehan received both his Ph.D. in Operations Research and Master of Science in Systems Engineering from University of Pennsylvania, US.

CHEN Fung Ming (Mr.), Chinese (Taiwan) and aged 69, joined the Company as an independent non-executive director in November 2008. Mr. Chen is the chairman of ProLight Opto Technology Corp. in Taiwan which provides high power LED packaging for lighting application. From 2006 to 2008, Mr. Chen was a director of Beyond Innovation Technology Corp. in Taiwan specialising in IC design for video application. He has extensive experience in the electronics and lighting industries. Mr. Chen obtained a Bachelor of Science degree in Physics from Fu Jen Catholic University in Taiwan in 1970. He also received from the University of Wisconsin-Madison, US, a Master of Science degree in Physics and a Master of Science degree in Computer Science in 1974.

SENIOR MANAGEMENT

WANG Chien Ho, Janson (Mr.), Chinese (Taiwan) and aged 56, joined the Company as director of electronic parts manufacturing and SMT and system assembly in June 2004. Before joining the Company, Mr. Wang joined the Hon Hai Group in June 1996 as an operation manager. He was then responsible for SMT and mother board manufacturing in Czech Europe as director of factory operation in 1999. In 2004, he was responsible for setting up a new factory of PCBA and engine production in FIH Europe in Hungary. Mr. Wang was promoted to a vice president responsible for ODM (original design manufacturing) operation in Shenzhen, China in 2007. From 2009, he has started to be based in northern China. Mr. Wang is also a director of certain subsidiaries of the Company, namely 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only) and 衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd for identification purposes only) respectively. He has over 29 years of extensive experience in manufacturing operation and engineering management. Mr. Wang obtained a Bachelor degree in Electronics Engineering from Feng Chia University, Taiwan in 1982.

Dr. CHANG Pe Ter, Peter (Mr.), Chinese (Taiwan) and aged 56, joined the Company as senior manager of mechanical parts production in December 2008. Dr. Chang, current position as senior director, manages mechanical parts business at Lang Fang site. Before joining the Company, Dr. Chang was with Enlight Corporation since September 2002 and with the responsibility of mechanical parts of laptop/handset business development and manufacturing. Prior to that, Dr. Chang held various production and engineering management positions with the automobile industry. He has over 25 years of experience in engineering and cross functional management. Dr. Chang received a Ph.D. degree in Mechanical Engineering/Materials from University of Massachusetts at Amherst, US in 1992.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

HSIUNG Nai-Pin, Paul (Mr.), Chinese (Taiwan with US nationality) and aged 52, joined the Company as director of business development in January 2003. He is responsible for after-market-service in America region since 2012. Prior to that, Mr. Hsiung held various functions and positions in mobile phone industry with the Company. From 2003 to 2008, he was responsible for business development and project management in Florida, US. Then he was responsible for mobile phone design and development, and also product manufacturing at both Florida, US and Lang Fang, China from 2009 to 2012. Before joining the Company, Mr. Hsiung was a director of international marketing at Test Research, Inc. (a Taiwan listed company) for 8 years. Mr. Hsiung is also a director of certain subsidiaries of the Company, namely Excel Loyal International Limited, FIH Mexico Industry SA de CV, FIH (Tian Jin) Precision Industry Co., Ltd., Prospect Right Limited, S&B Industry, Inc., SP International, Inc., Sutech Holdings Limited and Sutech Industry Inc. He obtained a Bachelor degree of Applied Physics from Tamkang University, Taiwan and a Master degree of Computer Science from New York Institute of Technology, US.

TAM Kam Wah, Danny (Mr.), Chinese (Hong Kong with British nationality) and aged 52, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief financial officer of the Company. He is responsible for accounting and internal and external financial reporting, financial planning, taxation, investment management, internal control, investor relations, corporate governance, risk management and performance management of the Group. Mr. Tam has over 28 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. He is also the statutory auditor of FIH Technology Korea Ltd., a subsidiary of the Company in Korea. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd. (now known as China Oceanwide Holdings Limited) and he also worked as an accounting manager for Coates Brothers (HK) Co., Ltd. Mr. Tam is a fellow of the Association of Chartered Certified Accountants, a fellow of the Taxation Institute of Hong Kong and an associate of Hong Kong Institute of Certified Public Accountants. He is also a certified tax adviser. Mr. Tam received a BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University, People's Republic of China (the "PRC") in 2005.

CHEN Hui Chung, John (Mr.), Chinese (Taiwan) and aged 54, joined the Company as senior director of finance division in August 2013. He is responsible for treasury, financial investment and financial risk management of the Group. Mr. Chen has over 26 years of experience in finance areas in Taiwan listed companies. Before joining the Company, he was the chief financial officer of Taiwan Synthetic Rubber Corp and Wan Hai Lines Ltd. respectively. Mr. Chen received a Bachelor of Transportation and Communication from National Cheng Kung University, Taiwan in 1983 and a MBA from University of California Irvine, US in 1987.

REPORT OF THE DIRECTORS

The board of directors of the Company (the “Board”) is pleased to announce this annual report, particularly the audited consolidated results of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the consolidated financial statements on pages 105 to 107. The Group is a vertically integrated manufacturing services provider for handset industry worldwide. It provides a full range of manufacturing services to its customers in connection with the production of handsets.

RESULTS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated financial statements on page 37.

BUSINESS REVIEW

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation), and a leader for the handset industry worldwide as a vertically integrated manufacturing services provider offering a comprehensive range of handset components and manufacturing services to its customers, which include unique product development and design, casings, components, full-system assembly etc and repair and other after-sales services. The Group has been using the business model of eCMMS (e-enabled Components, Modules, Moves and Services) and has successfully transformed its business model from OEM (original equipment manufacturing) to ODM and IDM (integrated design and manufacture) by providing one-stop shopping service of its competencies in mechanical, electronic and optical capabilities altogether. The Company believes a wider service platform, especially with high value-added contribution, could differentiate the Group from its competitors. The Group has strived to provide its customers with not only manufacturing support, but also repair, logistics and distribution services. In addition to handsets, the Group has been actively exploring opportunities in other related areas, such as accessories and wearable devices and mobile internet services.

The Group’s major customers include top international brands and Chinese brands, and accordingly, the Group has operations and manufacturing facilities spanning Asia-Pacific regions (e.g. China, Taiwan and India) and the Americas which are located close to its customers to better facilitate their respective local needs.

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

REPORT OF THE DIRECTORS

Discussion and Analysis

Review of Results and Operations

Financial Performance

For the twelve-month period ended 31 December 2015, the Group recognised a consolidated turnover of US\$7,451 million, representing an increase of 9.09% from US\$6,830 million for the same period last year. Gross profit for the period reached US\$386 million, representing a decrease of US\$37 million from that for the same period last year. Gross margin % declined from 6.20% of 2014 to 5.18% of 2015. Fighting against market headwinds, the Group put efforts to control operating expenses. Accordingly, profit attributable to owners of the Company for the period was US\$229 million, representing an increase of US\$60 million from that for the same period last year, and the 2015 net profit % was 3.07% which is higher than the 2014 net profit % of 2.48% by 0.59%. The improvement in net margin was primarily attributable to (1) the reduction of the Group's effective income tax rate from 36.9% of 2014 to 21.2% of 2015 which is mainly due to the utilisation of some of the Group's accumulated tax losses triggered by the Group's management actions (including operation turn-around of some of the Group's manufacturing sites, and introduction of new business into previously loss-making entities); (2) less impairment loss incurred by the Group in respect of its property, plant and equipment (US\$2.6 million for 2015 when compared with US\$34.9 million for 2014), mainly due to the relocation, restructuring and consolidation of some of the Group's manufacturing sites; and (3) the reduction in the Group's operating expenses, mainly due to the Group's tighter control measures.

To remain competitive, the Group has remained lean and managed to maintain operating expenses at reasonable stable level of US\$321 million for 2015 (when compared with US\$356 million for the same period last year) on the basis of the corresponding turnover, with expense ratio being improved to 4.3% for 2015 from 5.2% for the same period last year. The 2015 ROE (Return On Equity, representing the amount of net income returned as a percentage of shareholders' equity, which measures a company's profitability by revealing how much profit such company generates with the money that its shareholders have invested) increased to 6.11%, when compared with the 2014 ROE of 4.32%, as the net profit attributable to owners of the Company increased by US\$60 million for 2015 when compared to that for 2014. The Group strives to achieve a better ROE.

Basic earnings per share for the period were US2.96 cents.

Dividends

The Board has resolved to recommend the declaration and payment of a final dividend of US\$0.00869 per ordinary share of the Company (which in aggregate amounts to approximately US\$68,599,000), and a special dividend of US\$0.019 per ordinary share of the Company (which in aggregate amounts to approximately US\$150,000,000), respectively, for the year ended 31 December 2015, subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Details regarding the proposed declaration and payment of the final dividend and the special dividend are set out in the Company's circular dated 15 April 2016.

Sales

The Group started its business serving international brands by manufacturing feature phones. With the launch of smart phones and the subsequent popularisation which has driven smart phone outsourcing, the Group has benefited from the trend. In the past couple of years, there has been market share reshuffles between international brands and other market players (like Chinese brands), and the Group saw diverse performance across its customers. According to IDC (International Data Corporation), there are 7 Chinese brands among the top 10 players in 2015. To mitigate the risks of reliance on a limited number of key customers, the Group has put efforts to diversify its customer base, and has successfully developed Chinese brand customers that are rapidly gaining market shares. As a result, the Group has maintained a healthy and diversified customer mix, while taking advantage of the market share shifts by working with the rising players. From the customers' perspective, they found the Group's solid R&D capability, advanced technology and large capacity instrumental to their competitive edge in the dynamic market. The Company believes that the Group is well positioned to capture the strong momentum of these customers' growth. However, given the fierce competition in the market and increasing capacity in the industry, it does need to pay extra attention to its cost control and competitiveness enhancement.

REPORT OF THE DIRECTORS

To remain competitive, the Group's production capacity and R&D capabilities were increased to cope with higher customer demands; at the same time, the Group has continued to review its global capacities to optimise resources and increase capacity in emerging markets like India, with the aim to enjoying operating leverage expansion alongside an upturn in the capital expenditure cycle.

P&L (Profit and Loss)

In 2015, several major bouts of financial volatility emanating from China shocked global markets and businesses. All these sudden developments caused increasing concern on the global economic outlook. Other unfavourable factors like the weakening of crude oil price, fear of slowdown of global economy and smart phone shipment, intensified competition and market share reshuffle have induced pricing pressure to impact the Group's 2015 2nd half performance and the whole year's gross margin. To mitigate its gross margin erosion and for the purpose of increasing business visibility, the Group has strived to improve efficiency and yield by enhancing production automation and tighter control on manufacturing overheads, asset utilisation and capacity optimisation. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to lighten the impact of rising labour cost and enhance efficiency. The Group's dedicated and professional procurement team is leveraged to source materials with competitive prices. Also, there has been continuous strong support from the Company's ultimate controlling shareholder, Hon Hai, and its other subsidiaries, to offer in scale, solid component support and stable supply of key components and vertical integration. All these initiatives have been implemented thus mitigating the impacts from gross margin erosion.

Operating Segments

Across overall business in 2015, Asia segment remained the Group's core performance contributor, and the revenue of Asia segment was US\$5,269 million, representing a growth of 23.7% from that for the same period last year (2014: US\$4,261 million), and recorded earnings of US\$368 million, reflecting 11.9% decline over those for the same period last year (2014: US\$418 million). The emerging Chinese brands have continued to gain market share from international brands and maintain sustainability in the China market due to the former's attractive pricing and localised design. The China smart phone market continues to be the focus of the Group, and this contributed to the growth of sales of Asia segment. Years ago, the Group has shifted the gravity of operations to China (for manufacturing products for the domestic market and export and product development) and Taiwan (for R&D) after the downsizing of European sites, and resources have been continuously devoted to the Asia segment (which is of further growth potential) so as to further enhance the capacity, capability, competence and presence of the Group in the Asia segment (including India) and develop more new businesses and customers there. However, due to those negative factors mentioned above, the earnings of the Asia segment declined.

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

The America segment became gradually stabilised on the basis of improving economic environment and improvement in employment, recorded revenue of US\$1,868 million when compared with recorded revenue of US\$1,764 million for the same period last year. Similar to the Asia segment, negative factors have also affected the profitability of the America segment. The 2015 recorded earnings were US\$68 million when compared with recorded earnings of US\$88 million for the same period last year. The performance of America segment had provided positive support and impact to the Group's overall performance.

The performance of Europe segment remained less significant as the economic environment there was comparatively not good and there has been a relatively aggressive pricing strategy, recorded earnings of US\$1 million when compared with recorded earnings of US\$13 million for the same period last year. The performance of Europe segment did not have much adverse impact on the Group's overall performance as European sites have been downsized in prior years.

REPORT OF THE DIRECTORS

Investments

The Group has endeavoured to move up the value chain in the mobile devices ecosystem, and has strategically built a mobile internet platform and ecosystem for emerging markets through investments and M&A (mergers and acquisitions) activities. The Company believes integrating value-added services with hardware devices could create synergy and greater growth for both the invested companies and the Group. The synergy will be significant as the software capability and service would help the Group to provide better user experiences for customers. The Group aims to develop an ecosystem for services in India and other emerging markets. The Group invested US\$200 million in India-based Jasper Infotech Private Limited, which runs a leading online marketplace and shopping site known as “snapdeal.com” in India (“Snapdeal”). Snapdeal’s vision is to create India’s most impactful digital commerce ecosystem that creates life-changing experiences for buyers and sellers. Through such investment, the Group has gained exposure to the mobile e-commerce market in India thus facilitating the set-up of a comprehensive online network of sales, distribution and marketing channels for mobile devices and other consumer products. By offering value-added mobile services, the Group should be able to enhance its business model in India and enable online sales and service channels to the market. The Group also invested US\$2.5 million in an Indian company, MoMagic Technologies Private Limited (“MoMagic”), which helps app developers and content firms reach consumers through various means and seek cooperation in mobile networks and penetration into Indian handset market. With the investment of the Group, MoMagic will advance its technological and business edge, and expand as a market leader in the future. In addition to its previous investments of a total of US\$9.7 million, the Group further invested US\$2.8 million in migme Limited (“migme”), which is an international social media company focusing on emerging markets whose shares are listed on the Australian Stock Exchange. Through mobile applications, migme provides social entertainment, news, e-commerce and artist management services to its users. In 2016, migme will continue working on functionality and user experience improvements on the migme platform, as well as focus on further enhancing quality and operating margin improvements. In addition to its previous investment of US\$9.5 million, the Group further invested US\$9.5 million in Meitu, Inc. (“Meitu”), a leading mobile internet platform company with a portfolio of photo and video applications, notably MeituPic, BeautyCam, BeautyPlus and Meipai. Meitu also develops and sells fashionable smart phones optimised for selfie experience. The Group has been working with Meitu to develop new handset distribution business in Asia. Going forward, Meitu will focus on three main strategies: globalisation, platformisation and monetisation.

For the year ended 31 December 2015, the Group was not aware of any circumstances which involve any material impairments in respect of the above investments. Such investments are in their growing phases, and on the basis of the information on hand, the Group believes that their prospects are optimistic.

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

The Group has been maintaining a healthy and free cash flow for years. As at 31 December 2015, the Group had a cash balance of US\$1,950 million. The Group’s healthy cash flow can provide operational buffers when the market uncertainties increase. In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring good investment opportunities. Apart from the existing handset manufacturing business, the Group is dedicated to exploring new business by establishing strategic partnerships with technology companies and making equity investments in companies of good potential. The Group has an experienced investment team, and has prioritised investments among the highest long-term growth prospect which may take years before investment can be realised. There had been no material disposals of the Group’s subsidiaries, associates and joint ventures in the year ended 31 December 2015.

REPORT OF THE DIRECTORS

During the year ended 31 December 2015, the Company is of the opinion that the carrying amount of CExchange, LLC (engaging in the business of consumer electronics trade-in and buy-back, in which the Group invested US\$10.5 million) (“CEX”) cannot be recovered by the recoverable amount, thus an impairment loss of US\$5.2 million was recognised in respect of the Group’s investment in CEX. As CEX’s gross margin was not able to cover its operating costs due to its reduced business, it ran a loss during the year ended 31 December 2015. For details, please refer to the Group’s consolidated financial statements for the year ended 31 December 2015. Currently, the Group does not have any plan on changing its investment status in CEX. In the future, CEX is dedicated to improve its gross margin by identifying and developing new businesses in its local market.

Compliance with Relevant Laws and Regulations

The Group operates in compliance with the relevant laws and regulations, examples of which that have a significant impact on the Group include those relating to foreign investment, taxation, import and export, foreign exchange control and intellectual property, and (as the Company’s shares have been listed and traded on the Stock Exchange) the applicable requirements laid down by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the “SFO”).

The Group has been operating multi-nationally (coupled with investments) in its principal operating segments, namely Asia, America and Europe. In particular, the Group’s legal structures and funding arrangements, business models, supply chain and general operations have been structured and realigned in a tax-efficient manner and tax-advantaged way to optimise income tax expenses (as well as cash flows) legitimately from tax, commercial and financial perspectives in multiple jurisdictions. For example, when planning the business model and supply chain of the Group’s India operations, among other things, duty structure of domestic manufacturing was compared with direct import. The Group has also obtained (where available) local tax preferences, tax exemptions and other tax incentives (such as super deduction of R&D expenses) and utilised tax losses available, thereby reducing the Group’s tax liabilities towards its net profit. The Group has kept abreast of the accelerating pace of tax, legal and regulatory developments in different jurisdictions, both locally and globally, and there are regular and on-going reviews of existing structures and operations in light of the latest tax, legal/regulatory and business environment.

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

In relation to the Group’s compliance with the relevant laws and regulations that have a significant impact on the Group relating to environmental, social and governance aspects, please refer to specific discussions in the “Corporate Social and Environmental Responsibility (SER)” section below.

REPORT OF THE DIRECTORS

Liquidity and Financial Resources

As at 31 December 2015, the Group had a cash balance of US\$1,950 million (2014: US\$1,844 million). Free cash flow, representing the net cash from operating activities of US\$877 million (2014: US\$252 million) minus capital expenditure and dividends of US\$365 million (2014: US\$139 million), was US\$512 million (2014: US\$113 million). The improvement in free cash flow was due to better control over the inventories and the creditability of customers and its outstanding receivables. The Group has abundant cash to finance its operations and investments. The Group's gearing ratio, expressed as a percentage of interest bearing external borrowings of US\$13 million (2014: US\$179 million) over total assets of US\$5,805 million (2014: US\$6,823 million), was 0.22% (2014: 2.62%). All of the external borrowings were denominated in US Dollars (2014: US Dollars). The Group borrowed according to real demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest bearing external borrowings were all at fixed rate of 1.10% (2014: 0.95% to 1.46%) per annum with original maturity of 6 months (2014: 1 to 3 months).

As at 31 December 2015, the Group's cash and cash equivalents were mainly held in US Dollars and RMB.

Net cash from operating activities for the year ended 31 December 2015 was US\$877 million.

Net cash used in investing activities for the year ended 31 December 2015 was US\$271 million, of which, mainly, US\$172 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC, US\$203 million represented withdrawal of bank deposits, US\$3,121 million represented purchase of short-term investments, US\$228 million represented purchase of available-for-sale investments, US\$3 million represented acquisition of investments in associates, US\$18 million represented proceeds from disposal of property, plant and equipment, US\$1 million represented proceeds from disposal of prepaid lease payments, US\$5 million represented proceeds from disposal of financial assets classified as held-for-trading and US\$3,026 million represented proceeds from settlements of short-term investments.

Net cash used in financing activities for the year ended 31 December 2015 was US\$357 million, primarily due to net decrease in bank borrowings of US\$165 million and dividends paid of US\$192 million.

Exposures to Currency Risk and Related Hedges

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

Besides, the Group sometimes entered into short-term forward foreign currency contracts (usually with tenors less than 3 months) to hedge the currency risk resulting from its short-term bank borrowings (usually with tenors of 1 to 6 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 31 December 2015, the capital commitment of the Group was US\$16.9 million (2014: US\$54.6 million). Usually, the capital commitment will be funded by cash generated from operations.

Pledge of Assets

There was no pledge of the Group's assets as at 31 December 2015 and 2014.

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Outlook

2016 is set to be an uncertain year for the world's economy since the financial and economic crisis of 2008-2009. China's domestic economy started its lower growth era as the Chinese Government has lowered its official 2016 GDP (gross domestic product) growth target and this will continue to affect the Group's performance since the end of 2015. As the deceleration in China's growth deepens in 2016, businesses operating in China should be on the lookout for specific areas of weakness and volatility in order to identify market risks and to monitor potential opportunities to align with government priorities.

Smart phone industry is dynamic and highly competitive. Slower growth could bring about industry consolidation, potentially pressuring the supply chain. As end demand for smart phones remained at over 1.4 billion sets per year with lower year-on-year growth, competition from EMS (electronics manufacturing services)/ODM peers is deemed to intensify to create pressure on the Group's business. Meanwhile, there have been constant changes in both technologies and business models. Each industry shift is an opportunity to conceive new products, new technologies or new ideas that can further transform the industry and the Group's business. The Group has been investing in a broad range of R&D activities that seek to identify and address the changing demands of customers, industry trends and competitive forces.

Despite the uncertainties and competitive landscape, the Group will continue with the customer mix transition and the effort to diversify customer base and will continue to devote resources to enhance its core competences, remain agile and competitive in providing its customers with differentiated contribution to their supply chain and overall business. The Group will focus on especially those in emerging markets and in the mobile internet business. The Group's existing customers from China should continue to gain market shares in their home market and expand aggressively in overseas markets. They want to leverage the Group to extend their footprints in India and other emerging markets. Since 2015, the Group has been expanding its local manufacturing service and component supply chain support in non-China emerging markets like India which are expected to become the next growth driver.

Apart from the existing business, the Group is dedicated to exploiting new business by establishing strategic partnerships and making equity investments, which are expected to be funded by cash generated from the Group's operations and the cash on hand. There are currently no financing plans to meet capital commitments, repayment of current debts, and there will be no fund-raising activities in 2016.

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

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

REPORT OF THE DIRECTORS

Corporate Social and Environmental Responsibility (SER)

As an active member of the Electronic Industry Citizenship Coalition (“EICC”) to promote SER within the electronics industry, the Hon Hai Group is dedicated to fulfilling its responsibilities as a good corporate citizen and to integrating good governance practices in all respects of its operations. As a member of the Hon Hai Group, the Group’s operations are guided by the Hon Hai Group’s SER Code of Conduct, which sets out the Group’s standards relating to business ethics, labour and human rights, health and safety, environment and anti-corruption (the “Code”).

Compliance with the Code is monitored by the Hon Hai Group’s Global SER Committee and, in relation to the Group, the Company’s chief executive officer for the time being and his delegates. Each year, they conduct evaluations and audits against the Group’s operations. For the year ended 31 December 2015, the Group operated in compliance with the Code.

Environmental Policies and Performance

Environmental sustainability is a top priority for the Group. The Group has put in place a systematic approach towards integrating green and sustainable practices in its operations, implementing measures in the areas of environmentally-friendly product design, carbon emission reduction, process management, energy and resource management and supply chain management to minimise the negative impact of the Group’s operations on the environment, with the aim of attaining the international standards laid down by the ISO14001 environmental management system and the European Eco-Management and Audit Scheme. All manufacturing plants of the Group in China and Mexico have attained the ISO14001 environmental management system. In particular, environmental protection facilities in the Group’s manufacturing plants have been upgraded, enhancing the processing and management capacity of wastewater, gas emissions, general waste and recycled materials.

Air Pollution Control

Air pollutants (such as organic chemicals, aerosols, corrosive gases, particles, ozone depleting chemical substances and combustion by-products) emitted during the manufacturing process are closely controlled and monitored before discharge. The functioning of air pollutant emission systems is under routine examination. In particular, the Group works continuously with suppliers on carbon reduction measures (among others) by requesting them to adhere to its carbon reduction policies and establish a system, at the organisational and product levels, to monitor carbon emissions, and by establishing a platform for supplier greenhouse gas management. Please see the “Supply Chain Management” and “Sustainable Product Management” sections below for more details about the Group’s supplier green product management.

Water Treatment and Utilisation

The Group actively promotes the reduction and reuse of wastewater and adopts the use of reclaimed water throughout its production lines in order to reduce the impact of manufacturing on the environment. The Group is also committed to conserving water resources through the ongoing optimisation of production processes. Wastewater is closely monitored and controlled before discharge. The functioning of the wastewater handling systems is under routine examination.

Waste Treatment

The Group has a systematic approach to differentiate, control, reduce, dispose of, transport, store and recycle solid wastes as well as chemicals and hazardous materials. All relevant wastes are treated and disposed of in compliance with relevant environmental laws and regulations.

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Environmental Permits and Reporting

The Group complies with relevant laws and regulations in obtaining, maintaining and renewing the requisite environmental permits and with the requirements on the use and reporting relating to the relevant permits.

Recycled Materials

The Group actively promotes the use of environmentally-friendly materials and has conducted research to develop and design environmentally-friendly products that are sustainable. The Group's efforts in the recycling of wastes and the use of renewable materials not only create economic benefits, but also effectively utilise resources and hence reduce the environmental impact.

Product Content Restrictions

The Group complies with relevant laws and regulations as well as the instructions of its customers regarding the non-use of restricted or hazardous substances as well as the recycling and processing of relevant wastes.

Energy Management

By leveraging on energy-saving and carbon emission reduction technologies, the Group actively promotes energy-efficiency management and renewable energy utilisation.

Employee Awareness

The Group actively pursues a variety of environmental activities to raise employee awareness of the environmental conservation and to educate and increase the engagement of employees in doing their part to protect the environment.

Compliance with Relevant Laws and Regulations

The Group operates in compliance with relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharge into water and land, and generation of hazardous and non-hazardous wastes.

Employees

Employees are the Group's most important assets, and the Group is fully committed to continuing to provide employees with an industry-leading working environment, and protecting the rights and interests of its employees, with the aim of attaining the standards prescribed by the United Nations' Declaration of Human Rights, EICC, the International Labour Organisation and the Ethical Trading Initiative as well as the requirements laid down by relevant local laws and regulations.

As at 31 December 2015, the Group had a total of 81,013 (2014: 83,084) employees. Total staff costs incurred during the year 2015 amounted to US\$354 million (2014: US\$429 million).

Recruitment

The Group recruits employees using an unbiased screening process while maintaining respect for human rights and confidentiality of applicants and the need for diversity in the workforce. The employment of child workers and forced labour is strictly prohibited and that of underaged workers is highly restricted.

Wages and Benefits to Employees Generally

The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. In general, the Group's merit-based remuneration policy rewards its employees for good performance and productivity. The Group treats all employees equally and fairly and evaluates employee performance (including determining promotions and wage increments) based on merit and ability. To encourage employee retention, the Group has

REPORT OF THE DIRECTORS

implemented annual bonuses, time-based incentives and other incentive programs. In particular, the Company has adopted a share scheme and a share option scheme respectively, as more particularly described below, and the share option scheme complies with the requirements of Chapter 17 of the Listing Rules. The Group has also introduced non-monetary rewards (including housing incentives) for employees with exceptional performance. Employees also enjoy insurance coverage provided by the Group.

Emoluments to Directors

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

Training and Development

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

Anti-discrimination

The Group is an equal opportunity employer and its employment policies require that recruitment, promotion, wages, training, development and retirement must be people-oriented, non-discriminatory, lawful and fair without discrimination based on (among others) gender, age, nationality, religion, political affiliation, disability, gender identity and union membership. The Group also promotes diversity in the workplace.

Occupational Safety and Health

The Group abides by the "safety first" policy. Its focus is to deploy proactive and preventive measures in order to eliminate and reduce occupational risks and to provide a healthy and safe working environment for its employees. Safe and sustainable operations are the cornerstone of corporate growth and a fundamental principle in its approach towards the well-being of its employees. The Group has established an advanced detection and monitoring system, implemented control and prevention mechanisms, and conducted regular safety inspections to eliminate and prevent any workplace hazards. Seminars on health and safety are organised to enhance employee awareness of safety policies and capabilities in handling machinery and hazardous materials. The Group's employee health and safety policies and standards comply with relevant international and local laws and regulations, including the requirements under the OHSAS 18000 (an international occupational health and safety management system) and the SA8000 (an auditable social certification standard for workplaces across all industrial sectors). In addition, the Group provides facilities for complimentary health checks for employees.

The Group has been investing in automation of various manufacturing tasks associated with its operations to improve industrial safety and occupational hygiene. Across all of its facilities, the Group has continued to leverage on automation and other innovative manufacturing technologies to replace the high-risk or repetitive tasks to enable its employees to focus on high value-added elements in the manufacturing process.

REPORT OF THE DIRECTORS

Care for Employees

The Group considers a steady and harmonious labour relationship to be the foundation for a sustainable development of an enterprise. In order to achieve and enhance such relationship, the Group has continuously invested in improving the infrastructure of manufacturing plants and the dormitory environment for employees. Recreational facilities provided to the employees include integrated sports stadiums, basketball courts, swimming pools, libraries, parks, gymnasiums, banking and retail facilities to support healthy lifestyle and promote work-life balance among employees. Employees are encouraged to participate in various cultural, entertainment and sport activities organised by the Group according to their individual interests. There are also regular volunteer activities such as blood donation, tree planting and visits to the underprivileged for employees to contribute to the local communities.

Compliance with Relevant Laws and Regulations

The Group operates in compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation, dismissal, recruitment, promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare, safe working environment, protecting employees from occupational hazards, and preventing child and forced labour.

Customers, Suppliers and Other Business Partners

Supply Chain Management

The Group requires all suppliers to comply with its social and environmental responsibility guidelines and to adhere to and implement the following policies:

- Prohibit corruption, discrimination, unfair or non-competitive practices throughout the procurement process by signing a letter of undertaking that they will adhere to the principles of fair competition and transparency; and
- Prohibit discrimination based on country of origin, race, culture or politics.

The Group adopts a progressive grading approach, a scoring method in which points are awarded or deducted based on performance in order to motivate suppliers to take actions to improve their standards to fulfill the Group's requirements.

Sustainable Product Management

The Group's commitment to sustainability can be seen across its entire supply chain, from product design to material sourcing and procurement measures. It has set up specialised divisions to study the environmental requirements of regulators, customers, industry and other stakeholders, including compliance with RoHS (Restriction on Hazardous Substances) and the restrictions on the use of conflict minerals. The results of those efforts are translated into actionable internal measures that can be integrated and applied within its operations.

The Group requires suppliers to ensure that downstream suppliers fulfill obligatory requirements in order to restrict the use of toxic and hazardous substances, encourage the deployment of carbon emission reduction solutions and other environmentally-friendly practices and solutions, and bolster capabilities in making eco-friendly products. It also monitors all aspects of the operations process via systematic platforms to ensure alignment with sustainability such as using recyclable materials wherever possible.

Data Privacy

During its operations, personal data from the Group's stakeholders such as suppliers, customers and employees are collected from time to time for different purposes. The Group recognises its responsibilities and strictly complies with relevant laws and regulations in relation to the collection, holding, processing, use, transfer and disposal of such data. Personal data are collected only for lawful and relevant purposes, and appropriate steps are taken to ensure that personal data held by the Group are accurate.

REPORT OF THE DIRECTORS

The Group strives to protect personal data from unauthorised access and abuse. Its employees are contractually responsible for safeguarding any confidential or sensitive information to which they have had access during their employment.

Anti-corruption Policy

The Group upholds a corporate culture of integrity and management with dignity. It is committed to full compliance with national and international anti-corruption and anti-bribery laws and regulations. The “Anti-Corruption Code of Conduct” describes the types of conduct which are strictly prohibited and clearly informs all employees that they are required to abide by the Code. In addition, an anti-corruption team has been set up for investigating into any allegations of improper conduct. In addition, the Group requires (as a prerequisite to the establishment of business relationship) suppliers and customers to strictly enforce high standards of anti-corruption policy.

Compliance with Relevant Laws and Regulations

The Group operates in compliance with relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided, methods of redress, bribery, extortion, fraud and money laundering.

Community Involvement and Participation

The Group embraces a culture of sharing, contributing and giving back to the community. It actively participates in social and community-based programs, including sponsoring and hosting philanthropic activities and volunteer programs. As a responsible corporate citizen, the Group is committed to doing its part in creating a caring environment, promoting care and respect for the disadvantaged, driving charitable programs and contributing to the bridging of the education gap between people living in urban and rural areas.

Donations

The Group has in the financial year ended 31 December 2015 made donations for charitable or other purposes to a total amount of approximately US\$5,300.

RESERVES

Movements in reserves of the Group during the year are set out on page 39.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company’s reserves available for distribution amounted to approximately US\$2,029,169,000.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 27 to the consolidated financial statements.

On 19 August 2015, a total of 104,230,955 ordinary shares of the Company were allotted and issued to the trustee for the benefit of the beneficiaries, who were not connected persons (as defined in the Listing Rules) of the Company, under the share scheme of the Company adopted by the Board on 17 October 2013 and by the shareholders of the Company on 26 November 2013 (the “Existing Share Scheme”). Save for the aforesaid, no other shares of the Company were allotted or issued in the financial year ended 31 December 2015.

FINANCIAL SUMMARY

A financial summary of the results of the Group for the last five financial years is set out on page 110.

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PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 15 to the consolidated financial statements respectively.

BANK LOANS

Details of bank loans are set out in note 26 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors

TONG Wen-hsin
CHIH Yu Yang
LEE Jer Sheng

Non-executive Director

LEE Kuo Yu

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

Having received written confirmations from each of the independent non-executive directors of their independence pursuant to rule 3.13 of the Listing Rules, the Company considers each independent non-executive director to be independent.

Pursuant to article 112 of the articles of association of the Company (the "Articles"), one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles, Messrs. TONG Wen-hsin and CHIH Yu Yang will retire from office by rotation at the Company's forthcoming annual general meeting and, being eligible, will offer themselves for re-election at such meeting.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 19 August 2015, the Company granted 1,300,761 shares, 3,251,902 shares and 867,174 shares to Messrs. TONG Wen-hsin and CHIH Yu Yang and Dr. LEE Jer Sheng respectively under the Existing Share Scheme.

During the year, expenses allowances of approximately US\$1,510 and US\$5,610 were paid to Mr. CHIH Yu Yang and Dr. LEE Jer Sheng respectively.

SERVICE CONTRACTS

None of the directors of the Company has entered into a service contract with the Company which has not expired and which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its holding company or any subsidiary of the Company's holding company was a party and in which a director of the Company or an entity connected with a director of the Company (as defined in section 486 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong)) had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year.

PERMITTED INDEMNITY PROVISION

Article 175 of the Articles provides that (i) every director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted; and (ii) subject to the Companies Law (2011 Revision), Cap. 22 of the Cayman Islands laws (as amended from time to time), if any director of the Company or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the director or person so becoming liable as aforesaid from any loss in respect of such liability. Such permitted indemnity provision is in force during the financial year ended 31 December 2015 and at the time of approval of this report.

DISCLOSURE OF INTERESTS

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

As at 31 December 2015, 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 SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company were as follows:

| Name of director | Name of corporation | Capacity/ Nature of interest | Total number of ordinary shares | Approximate percentage of interest in the Company/ associated corporation |
|------------------------|---------------------|---------------------------------|---------------------------------------|--|
| TONG Wen-hsin (Note 1) | Company | Personal Interest | 2,633,266 | 0.0334% |
| | Hon Hai | Personal Interest | 212,117 | 0.0014% |
| CHIH Yu Yang (Note 2) | Company | Personal Interest | 11,975,955 | 0.1517% |
| | Hon Hai | Personal Interest | 2,141,995 | 0.0137% |
| | CMCS (Note 3) | Personal Interest | 1,000 | 0.0007% |
| LEE Jer Sheng (Note 4) | Company | Personal Interest | 2,188,106 | 0.0277% |
| LEE Kuo Yu | Hon Hai | Personal Interest | 161,973 | 0.0010% |

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Notes:

1. 2,633,266 shares include 1,300,761 shares which are issuable upon vesting of the share grants granted under the Existing Share Scheme.
2. 11,975,955 shares include 3,251,902 shares which are issuable upon vesting of the share grants granted under the Existing Share Scheme.
3. The Company indirectly, through its wholly-owned subsidiaries, holds approximately 86.17% of the entire number of issued shares of CMCS, a company incorporated in Taiwan.
4. 2,188,106 shares include 867,174 shares which are issuable upon vesting of the share grants granted under the Existing Share Scheme.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2015, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to any director of the Company, as at 31 December 2015, shareholders (other than the directors or chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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

Notes:

1. Foxconn (Far East) Limited is a direct wholly-owned subsidiary of Hon Hai, and therefore, Hon Hai is deemed or taken to be interested in the 5,081,034,525 shares which are beneficially owned by Foxconn (Far East) Limited for the purposes of the SFO.
2. Dr. LEE Kuo Yu, a non-executive director of the Company, is an employee of the Hon Hai Group.

Save as disclosed above, as at 31 December 2015, 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.

REPORT OF THE DIRECTORS

REMUNERATION OF SENIOR MANAGEMENT

The remuneration payable to the four members of the senior management of the Company (whose biographical details were disclosed in “Profile of Directors and Senior Management” set forth in the 2014 annual report of the Company) during the year were within the following bands:

| | Number of senior management |
|--------------------------------|--------------------------------|
| HK\$0 to HK\$500,000 | 2 |
| HK\$2,000,001 to HK\$2,500,000 | 2 |

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions not falling under rule 14A.76(1) of the Listing Rules as undertaken by the Group during the year are summarised as follows:

Purchase Transaction

Pursuant to the framework materials and components supply agreement entered into among the Company, Hon Hai, Innolux Corporation (formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) and 鴻準精密工業股份有限公司 (Foxconn Technology Company Limited for identification purposes only) (both associates of Hon Hai) on 19 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010 and 17 October 2013) (the “Purchase Agreement”), the Group has purchased materials and components from the Hon Hai Group from time to time for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) in respect of purchases from a supplier of materials and components for the manufacture of handsets as approved by the Group’s customer, at the price agreed between the supplier and the Group’s customer; if not, at a price to be determined by reference to the average market price; or
- (b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of “cost plus”; or
- (c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Purchase Agreement (the “Purchase Transaction”) constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Purchase Transaction for the three years ending 31 December 2016.

Hon Hai is the leading player in the computer, communication and consumer electronics (“3C”) manufacturing services industry. Under the convergence trend of the 3C industries, an increasing number of types of materials and components manufactured by the Hon Hai Group are used for the manufacture of handsets. The Company believes that it is an important competitive advantage of the Group in the handset manufacturing service industry that the Group together with the members of the Hon Hai Group can provide a wide range of vertically integrated manufacturing services to the customers.

REPORT OF THE DIRECTORS

Product Sales Transaction

Pursuant to the framework product sales agreement entered into among the Company, Hon Hai and Innolux Corporation (an associate of Hon Hai formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) on 18 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010 and 17 October 2013) (the "Product Sales Agreement"), the Group has sold parts or other products manufactured or owned by it to the Hon Hai Group from time to time for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or
- (b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or
- (c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Product Sales Agreement (the "Product Sales Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Product Sales Transaction for the three years ending 31 December 2016.

The Company considers it in its best interests to generate more income as well as enhance utilisation of its assets by carrying out the Product Sales Transaction in response to the Hon Hai Group's needs from time to time, provided that the Hon Hai Group purchases from the Group at prices comparable to market prices and/or which are considered to be fair and reasonable to the Company.

Sub-contracting Income Transaction

Pursuant to the framework sub-contracting agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 26 July 2012 and 17 October 2013) between the Company and Hon Hai (the "Sub-contracting Income Agreement"), the Group has provided certain services (such as molding, metal stamping for handsets and desktop computers, handset repair services and other services) to the Hon Hai Group from time to time for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or
- (b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or
- (c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

REPORT OF THE DIRECTORS

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Sub-contracting Income Agreement (the “Sub-contracting Income Transaction”) constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Sub-contracting Income Transaction for the three years ending 31 December 2016.

The Company considers it in its best interests to generate more income as well as enhance utilisation of its assets by carrying out the Sub-contracting Income Transaction as long as the services are provided at prices that are fair and reasonable pursuant to the Sub-contracting Income Agreement.

Non-real Property Lease Expense Transaction

Pursuant to the framework lease agreement relating to movable non-real properties dated 13 June 2013 (as amended by a supplemental agreement dated 17 October 2013) between the Company and Hon Hai (the “Non-real Property Lease Expense Agreement”), the Group has leased movable non-real properties such as equipment and machines (the “Non-real Properties”) from the Hon Hai Group from time to time for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein. The rental payable by the Group under the transactions contemplated under the Non-real Property Lease Expense Agreement (the “Non-real Property Lease Expense Transaction”) shall be determined on a fair and reasonable basis with reference to the average market rental of other similar properties in the market. If the average market rental is not available, the rental payable under the Non-real Property Lease Expense Transaction shall be determined on a “cost plus” basis. If both the average market rental basis and the “cost plus” basis are not appropriate or applicable, the rental payable under the Non-real Property Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Non-real Property Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Non-real Property Lease Expense Transaction for the three years ending 31 December 2016.

In carrying out the Product Sales Transaction and other manufacturing projects, the Group may require the use of the Non-real Properties including specialised equipment and machines. By leasing such Non-real Properties from the Hon Hai Group, the Group may gain access to the use of such Non-real Properties at rental rates agreeable to the Company saving capital expenditures.

General Services Expense Transaction

Pursuant to the general services agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010 and 17 October 2013) between the Company and Hon Hai (the “General Services Expense Agreement”), the Hon Hai Group has provided general administrative, support, utility and other related services to the Group from time to time for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) where there is a price determined by the relevant state, at such state-determined price; or
- (b) where there is no state-determined price, at the market price; or
- (c) where there is no state-determined price or market price, on the principle of “cost plus”; or
- (d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the relevant parties.

REPORT OF THE DIRECTORS

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the General Services Expense Agreement (the "General Services Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the General Services Expense Transaction for the three years ending 31 December 2016.

Certain production facilities of the Group are located at premises owned and managed by the Hon Hai Group and leased to the Group under certain lease transactions. Within such premises, the Hon Hai Group provides a number of general administrative, support, utility and other related services to all tenants, including the Group, which are necessary for the tenants to carry out their operations in such locations. The Company considers it more cost effective for the Group to share some other services provided by the Hon Hai Group, such as product testing, specialist inspection and information technology and communication services.

Consolidated Services and Sub-contracting Expense Transaction

Pursuant to the framework consolidated services and sub-contracting agreement entered into among the Company, Hon Hai, PCE Industry Inc. (a subsidiary of Hon Hai) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010 and 17 October 2013) (the "Consolidated Services and Sub-contracting Expense Agreement"), the Hon Hai Group has provided services including research and development services, design services, repair services and sub-contracting services to the Group from time to time for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) where the Hon Hai Group has been approved or otherwise designated by the relevant customers of the Group, at the price agreed between the Hon Hai Group and such customers; if not, at a price to be determined by reference to the average market price; or
- (b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or
- (c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement (the "Consolidated Services and Sub-contracting Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2016.

The Company considers that the services provided by the Hon Hai Group under the Consolidated Services and Sub-contracting Expense Transaction as requested by the Group can enhance the Group's handset manufacturing capabilities and related capacity in its handset manufacturing business, provide the Group with greater flexibility in capacity planning and allow the Group to carry on its business more efficiently.

REPORT OF THE DIRECTORS

Equipment Purchase Transaction

Pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010 and 17 October 2013) between the Company and Hon Hai (the "Equipment Purchase Agreement"), the Group has purchased equipment from the Hon Hai Group from time to time for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Group; or
- (b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or
- (c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or
- (d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Equipment Purchase Agreement (the "Equipment Purchase Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Purchase Transaction for the three years ending 31 December 2016.

The Hon Hai Group is able to customise standard industry equipment to varying degrees to better suit the production needs of the Group. Purchasing equipment from the Hon Hai Group helps shorten the lead time to deliver the equipment to the Group. The Group in the past also purchased used equipment that was in good condition from the Hon Hai Group at the book value of the equipment in Hon Hai's accounts. It is also more convenient for the Group to obtain the required maintenance services for the customised equipment from the Hon Hai Group.

Equipment Sale Transaction

Pursuant to the framework equipment sale agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010 and 17 October 2013) between the Company and Hon Hai (the "Equipment Sale Agreement"), the Group has sold equipment to the Hon Hai Group from time to time for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Group; or
- (b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or
- (c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or
- (d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

REPORT OF THE DIRECTORS

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Equipment Sale Agreement (the "Equipment Sale Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Sale Transaction for the three years ending 31 December 2016.

From time to time certain equipment of the Group no longer meets the production needs of the Group which may be as a result of a number of factors, such as new product specifications required by customers, capacity planning and new production arrangements. However, such equipment may be useful to the Hon Hai Group for its businesses. The Group may sell such equipment to the Hon Hai Group at prices the Company considers to be fair and reasonable generating more income for the Group.

Continuing Connected Transactions contemplated by Joint Venture

With reference to the announcement of the Company dated 31 January 2013 (the "2013 Announcement"), on the same date, First Honest Enterprises Limited (a wholly-owned subsidiary of the Company, "First Honest"), RadioShack Global Sourcing (Hong Kong) Ltd. (a wholly-owned subsidiary of General Wireless Operations Inc. doing business as "RadioShack" ("RSH")); RSH was previously a wholly-owned subsidiary of RadioShack Corporation (now known as RS Legacy Corporation) and FIH RadioShack (Asia) Retail Holdings Limited (formerly known as Perfect Legend Development Limited, the "JV") entered into the amended and restated joint venture agreement (the "JV Agreement"), pursuant to which the JV was formed and owned as to 51% by First Honest and 49% by RSH respectively. The following continuing connected transactions for the Company were entered into at the same time of the JV Agreement:

1. Pursuant to the master sourcing agreement (RadioShack) dated 31 January 2013 (as amended) entered into between the JV and RSH (the "RSH Master Sourcing Agreement"), the JV and its subsidiaries (the "JV Group") have purchased products and services from RSH and its associates from time to time for a term up to 22 January 2019 upon and subject to the terms and conditions set out therein.

As RSH is a substantial shareholder of the JV (being indirect 51%-owned subsidiary of the Company), the transactions under the RSH Master Sourcing Agreement constitute continuing connected transactions for the Company.

2. Pursuant to the trademark licence agreement (RadioShack Licensed Marks) dated 31 January 2013 (as amended) entered into among TRS Quality, Inc. (an associate of RSH), the JV and First Honest (the "RSH Licence Agreement"), TRS Quality, Inc. has granted to the JV a royalty-free right and exclusive licence for the JV Group to use certain trademarks owned by it from time to time for a term up to 22 January 2019.

As TRS Quality, Inc. is an associate of RSH, which is a substantial shareholder of the JV (being indirect 51%-owned subsidiary of the Company), the transactions under the RSH Licence Agreement constitute continuing connected transactions for the Company.

3. Pursuant to the trademark licence agreement dated 31 January 2013 entered into between Tandy Radio Shack LTD. (an associate of RSH) and the JV (the "RSH Royalty Agreement"), Tandy Radio Shack LTD. had granted to the JV a licence to use certain trademarks owned by it. On 22 January 2016, the JV entered into a termination agreement with Tandy Radio Shack LTD. to terminate the RSH Royalty Agreement with immediate effect.

As Tandy Radio Shack LTD. is an associate of RSH, which is a substantial shareholder of JV (being indirect 51%-owned subsidiary of the Company), prior to its termination, the transactions under the RSH Royalty Agreement constituted continuing connected transactions for the Company.

REPORT OF THE DIRECTORS

Pursuant to rule 14A.76(1) of the Listing Rules, transactions under the RSH Master Sourcing Agreement, RSH Licence Agreement and RSH Royalty Agreement respectively were/have been continuing connected transactions fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules. The Company will continue to monitor the respective aggregate amounts of such transactions, and if required, will re-comply with the relevant requirements under the Listing Rules.

Further, the parties have decided not to enter into the proposed HH Master Sourcing Agreement and the HH Royalty Agreement (both as defined in the 2013 Announcement) nor proceed with the JV Group's proposed acquisition of certain retail business operations from the Hon Hai Group.

Annual Consideration

The total consideration of each continuing connected transaction not falling under rule 14A.76(1) of the Listing Rules as undertaken by the Group during the year is as follows:

| Continuing connected transaction | Paying Group | Total consideration for the year ended 31 December 2015 (US\$'000) |
|---|---------------------|---|
| Purchase Transaction | Group | 1,008,787 |
| Product Sales Transaction | Hon Hai Group | 480,702 |
| Sub-contracting Income Transaction | Hon Hai Group | 120,670 |
| Non-real Property Lease Expense Transaction | Group | 15,692 |
| General Services Expense Transaction | Group | 20,725 |
| Consolidated Services and Sub-contracting Expense Transaction | Group | 204,754 |
| Equipment Purchase Transaction | Group | 99,739 |
| Equipment Sale Transaction | Hon Hai Group | 9,853 |

Annual Review

Pursuant to rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to report on the continuing connected transactions of the Group not falling under rule 14A.76(1) of the Listing Rules. The Company's auditors were engaged to report on such continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of such continuing connected transactions in accordance with rule 14A.56 of the Listing Rules. The auditors have reported their findings and conclusions to the Board. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS

Following specific enquiries with the Company's chief financial officer (in his own capacity and on behalf of the Company's management designated for the purposes of the Group's enterprise risk management and internal controls) and the recommendation from the Company's audit committee, the independent non-executive directors of the Company have reviewed the transactions and the findings and conclusions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or better;
3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
4. the internal control procedures put in place by the Company are adequate and effective to ensure that the transactions were so conducted.

For more details, please refer to "Accountability and Audit" set out in the Corporate Governance Report, which forms part of this annual report.

The related party transactions referred to in note 35 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

SHARE OPTION SCHEMES AND SHARE SCHEMES

Termination of Former Schemes and Adoption of Existing Schemes

A former share option scheme (the "Former Share Option Scheme") and a former share scheme (the "Former Share Scheme") were adopted by the Board on 12 January 2005. The Former Share Scheme was amended by the shareholders of the Company at the extraordinary general meeting of the Company held on 4 August 2006 and by the Board at the Board meeting held on 29 October 2009.

As the Former Share Option Scheme and the Former Share Scheme were valid and effective only until (inclusive of) 2 February 2015 and considering that the permitted option period provided under the Former Share Option Scheme limited the vesting period of the options only up to 2 February 2015 (same as the expiry date of the Former Share Option Scheme) which limited the flexibility for the Board when considering the grant of options, ordinary resolutions were proposed at the Company's extraordinary general meeting held on 26 November 2013 (the "26 November 2013 EGM") to approve the adoption of a new share option scheme (the "Existing Share Option Scheme") and the Existing Share Scheme as well as the consequential termination of the Former Share Option Scheme and the Former Share Scheme. At the 26 November 2013 EGM, ordinary resolutions were passed by the shareholders of the Company to approve the adoption of the Existing Share Option Scheme and the Existing Share Scheme as well as the consequential termination of the Former Share Option Scheme and the Former Share Scheme.

The Existing Share Option Scheme and the Existing Share Scheme shall be valid and effective for a period of 10 years from 26 November 2013 until 25 November 2023, unless otherwise terminated in accordance with their respective terms.

REPORT OF THE DIRECTORS

For the avoidance of doubt, no further options would be granted under the Former Share Option Scheme after its termination, and no further shares would be granted under the Former Share Scheme after its termination, but in all other respects, the provisions of the Former Share Option Scheme and the Former Share Scheme respectively shall remain in full force and effect. Accordingly, all options granted prior to the termination of the Former Share Option Scheme and not then exercised shall remain valid and shall continue to be subject to the provisions of the Former Share Option Scheme and Chapter 17 of the Listing Rules, and all shares granted prior to the termination of the Former Share Scheme and not then vested shall remain valid and shall continue to be subject to the provisions of the Former Share Scheme. In relation to all options granted prior to the termination of the Former Share Option Scheme and not then exercised, such options lapsed in their entirety as at 31 December 2014 and therefore there are no outstanding options granted under the Former Share Option Scheme since 1 January 2015.

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

Summary of Principal Terms of Existing Share Option Scheme

The purpose of the Existing Share Option Scheme is to attract skilled and experienced personnel, to incentivise them to remain with the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

Subject to the terms of the Existing Share Option Scheme, the Board (or its duly authorised officer(s) or delegate(s)) may, at its/their absolute discretion, offer any employees, management members and directors of the Company, or any of its subsidiaries, and third party service providers, including employees of Hon Hai and its subsidiaries (collectively, the "Eligible Persons"), options to subscribe for shares on the terms set out in the Existing Share Option Scheme.

The total number of shares in respect of which options may be granted under the Existing Share Option Scheme shall be 757,380,227 shares, representing approximately 9.59% of the number of issued shares of the Company as at the date of this report.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee in any 12-month period up to the date of the latest grant shall not exceed 1% of the number of issued shares of the Company from time to time.

The minimum period for which the options must be held before they can be exercised and the period within which the options must be exercised (the "vesting period") will be specified by the Board (or its duly authorised officer(s) or delegate(s)) at the time of the offer of grant. The vesting period is up to six years (or such other period which must not be more than 10 years from the date of grant of the relevant options) as determined by the Board (or its duly authorised officer(s) or delegate(s)) at the time of granting the relevant options. An offer of grant of an option must be accepted by the date being a date not more than 30 days after the date of the offer. The amount payable on acceptance of an offer is HK\$1.00.

The subscription price for shares in respect of an option grant shall be the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Since its adoption, no option has been granted under the Existing Share Option Scheme.

REPORT OF THE DIRECTORS

Please refer to note 37 to the consolidated financial statements for more details.

Information on Existing Share Scheme

The purpose of the Existing Share Scheme is to attract skilled and experienced personnel, to incentivise them to remain with the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

The Existing Share Scheme is not subject to the provisions of Chapter 17 of the Listing Rules and provides (among other things) that (a) for grants to the beneficiaries who are not connected persons (as defined in the Listing Rules) of the Company, the trustee for the Existing Share Scheme shall subscribe, on behalf of the beneficiaries, for new shares at nominal value from the Company; and (b) for grants to the beneficiaries who are connected persons of the Company, the trustee shall purchase, on behalf of the beneficiaries, shares from the market.

The Board (or its duly authorised officer(s) or delegate(s)) may determine as to which of the Eligible Persons should be entitled to receive grants of shares under the Existing Share Scheme, together with the number of shares to which each proposed beneficiary should be entitled.

In accordance with the Existing Share Scheme, the maximum number of shares which may be subscribed for by the trustee on behalf of the beneficiaries who are not connected persons of the Company, during the period between one annual general meeting and the subsequent annual general meeting, must not exceed 2% of the Company's number of issued shares as at the date of the earlier annual general meeting. There is no maximum number of shares to be purchased by the trustee on behalf of the beneficiaries who are connected persons of the Company. However, if any proposed grant of shares to any connected person would result in the total number of shares granted and to be granted to such connected person during the 12-month period immediately preceding the date of such proposed grant exceeding 1% of the total number of issued shares of the Company as at the date of such proposed grant, then such proposed grant must be approved by the shareholders of the Company in general meeting, at which such connected person and his associates (as defined in the Listing Rules) shall abstain from voting.

The shares granted will be subject to lock-up periods of up to three years commencing from the date of grant, which will vary from beneficiary to beneficiary as to be determined by the Board (or its duly authorised officer(s) or delegate(s)). An offer of grant of shares (in respect of which no consideration is payable) must be accepted by the date being a date not more than 30 days after the date of the offer.

At the Company's annual general meeting held on 28 May 2015, an ordinary resolution was passed to grant a general mandate to the Board (or its duly authorised officer(s) or delegate(s)) to allot, issue and deal with additional shares under the Existing Share Scheme not exceeding 2% of the number of issued shares of the Company as at the date of such meeting, amounting to an aggregate of 155,789,443 shares.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 19 August 2015, the Company awarded a total of 114,717,017 ordinary shares (including 10,486,062 ordinary shares which were purchased from the market by the trustee as per the Existing Share Scheme) to a total of 2,838 beneficiaries under the Existing Share Scheme, in respect of which some share awards are subject to the corresponding lock-up periods.

At the forthcoming annual general meeting of the Company, an ordinary resolution will be proposed to grant a general mandate to the Board (or its duly authorised officer(s) or delegate(s)) to allot, issue and deal with additional shares under the Existing Share Scheme not exceeding 2% of the number of issued shares of the Company as at the date of such meeting (the "Scheme Mandate").

REPORT OF THE DIRECTORS

As at 15 March 2016, the issued share capital of the Company comprised 7,893,703,152 shares of US\$0.04 each. Subject to the passing of an ordinary resolution approving the Scheme Mandate and on the basis that no shares will be issued, purchased or bought-back prior to the forthcoming annual general meeting, exercise in full of the Scheme Mandate will result in 157,874,063 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK\$2.92 per share as at 15 March 2016 and the Scheme Mandate being exercised in full, the aggregate market value of the 157,874,063 shares to be allotted and issued pursuant thereto would be approximately HK\$460,992,264. The Company expects that the costs attributable to the grant of any shares under the Existing Share Scheme will be accounted for by reference to the market value of such shares at the time of grant. The Company will give due consideration to any financial impact arising from the grant of shares under the Existing Share Scheme before exercising the Scheme Mandate.

Please refer to note 37 to the consolidated financial statements for more details.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 71.6% of the Group's total revenue from sales of goods and rendering of services for the year and revenue from sales of goods and rendering of services to the Group's largest customer amounted to approximately 25.6%. Purchases from the Group's five largest suppliers accounted for approximately 34.9% of the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 13.3%.

None of the directors of the Company or any of their close associates (as defined in the Listing Rules) or any shareholder (which, to the best knowledge of the directors, owns more than 5% of the number of issued shares of the Company as at the date of this report) had any interest in any of the Group's five largest customers and five largest suppliers.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company (other than service contracts with any director or any person engaged in the full-time employment of the Company) were entered into or existed during the year.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there was sufficient public float as required by 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 year ended 31 December 2015.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the memorandum and articles of association of the Company and the Companies Law of the Cayman Islands.

PENSION SCHEMES

Details of the Group's pension scheme and the basis of calculation are set out in note 36 to the consolidated financial statements.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Company has established and maintained an audit committee in accordance with the requirements of the Listing Rules, particularly the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the "CG Code"). Its primary duties are to review the Group's financial reporting process and internal control and risk management systems, nominate and monitor external auditors and provide advice and comments to the Board. The audit committee comprises three 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 audited consolidated financial statements of the Group for the year ended 31 December 2015 and this annual report and recommended the same to the Board for approval.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year covered by this annual report, in compliance with the code provisions set out in the CG Code.

AUDITORS

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu who are due to retire and, being eligible, will offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

Tong Wen-hsin

Chairman

Hong Kong, 15 March 2016

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF FIH MOBILE LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of FIH Mobile Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 109, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

15 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

| | Notes | 2015 US\$'000 | 2014 US\$'000 |
|---|-------|---------------------|------------------|
| Revenue | 6 | 7,450,992 | 6,829,890 |
| Cost of sales | | (7,064,953) | (6,406,769) |
| Gross profit | | 386,039 | 423,121 |
| Other income, gains and losses | 7 | 247,304 | 259,528 |
| Selling expenses | | (18,513) | (17,846) |
| General and administrative expenses | | (187,813) | (195,450) |
| Research and development expenses | | (114,633) | (142,921) |
| Impairment loss recognised for property, plant and equipment | 14 | (2,554) | (34,932) |
| Impairment loss recognised for interests in associates | 19 | (8,112) | (4,750) |
| Interest expense on bank borrowings | 26 | (5,777) | (10,441) |
| Share of loss of associates | | (5,172) | (6,693) |
| Share of loss of joint ventures | | (605) | (1,466) |
| Profit before tax | 8 | 290,164 | 268,150 |
| Income tax expense | 11 | (61,500) | (98,843) |
| Profit for the year | | 228,664 | 169,307 |
| Other comprehensive (expense) income: | | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | | |
| Remeasurement of defined benefit pension plans | | (655) | 1,915 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | (241,383) | (55,866) |
| Fair value loss on available-for-sale financial assets | | (547) | (749) |
| Share of translation reserve of associates | | (349) | (45) |
| Share of translation reserve of joint ventures | | (171) | (219) |
| | | (242,450) | (56,879) |
| Other comprehensive expense for the year, net of income tax | | (243,105) | (54,964) |
| Total comprehensive (expense) income for the year | | (14,441) | 114,343 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | 229,066 | 169,437 |
| Non-controlling interests | | (402) | (130) |
| | | 228,664 | 169,307 |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | (13,761) | 115,015 |
| Non-controlling interests | | (680) | (672) |
| | | (14,441) | 114,343 |
| Earnings per share | 13 | | |
| Basic | | US2.96 cents | US2.24 cents |
| Diluted | | US2.93 cents | US2.20 cents |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

| | Notes | 2015 US\$'000 | 2014 US\$'000 |
|---|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 14 | 853,547 | 907,718 |
| Investment properties | 15 | 6,515 | 2,271 |
| Prepaid lease payments | 16 | 42,317 | 47,084 |
| Available-for-sale investments | 18 | 255,939 | 25,217 |
| Interests in associates | 19 | 29,359 | 35,077 |
| Interests in joint ventures | 20 | 3,897 | 4,673 |
| Deferred tax assets | 21 | 47,082 | 61,280 |
| Deposit for acquisition of prepaid lease payments | 17 | 30,700 | 31,160 |
| | | 1,269,356 | 1,114,480 |
| Current assets | | | |
| Inventories | 22 | 332,636 | 595,572 |
| Trade and other receivables | 23 | 1,595,361 | 2,445,104 |
| Short-term investments | 24 | 385,138 | 299,440 |
| Bank deposits | 30 | 272,218 | 523,734 |
| Bank balances and cash | 30 | 1,950,306 | 1,844,192 |
| | | 4,535,659 | 5,708,042 |
| Current liabilities | | | |
| Trade and other payables | 25 | 1,857,110 | 2,494,056 |
| Bank borrowings | 26 | 13,367 | 178,730 |
| Provision | 31 | 19,093 | 27,985 |
| Tax payable | | 132,662 | 160,916 |
| | | 2,022,232 | 2,861,687 |
| Net current assets | | 2,513,427 | 2,846,355 |
| Total assets less current liabilities | | 3,782,783 | 3,960,835 |
| Capital and reserves | | | |
| Share capital | 27 | 315,748 | 311,579 |
| Reserves | 28 | 3,431,194 | 3,609,139 |
| Equity attributable to owners of the Company | | 3,746,942 | 3,920,718 |
| Non-controlling interests | | 8,472 | 9,152 |
| Total equity | | 3,755,414 | 3,929,870 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 21 | 150 | 249 |
| Deferred income | 32 | 27,219 | 30,716 |
| | | 27,369 | 30,965 |
| | | 3,782,783 | 3,960,835 |

The consolidated financial statements on pages 37 to 109 were approved and authorised for issue by the board of directors on 15 March 2016 and are signed on its behalf by:

TONG WEN-HSIN
DIRECTOR

CHIH YU YANG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

| | Attributable to owners of the Company | | | | | | | | | | Non-controlling interests | Total |
|---|---------------------------------------|---------------|-----------------------|---------------------|----------------------|-----------------------|---------------------|----------------------------|------------------|-----------|---------------------------|-----------|
| | Share capital | Share premium | Special reserve | Revaluation reserve | Other reserve | Legal reserve | Translation reserve | Share compensation reserve | Retained profits | Total | | |
| | US\$'000 | US\$'000 | US\$'000 (note 28) | US\$'000 | US\$'000 (note a) | US\$'000 (note 28) | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Balance at 1 January 2014 | 302,963 | 985,478 | 15,514 | - | (2,866) | 166,240 | 490,051 | 1,296 | 1,739,989 | 3,698,665 | 9,824 | 3,708,489 |
| Other comprehensive (expense) income for the year | - | - | - | (749) | 1,915 | - | (55,588) | - | - | (54,422) | (542) | (54,964) |
| Profit (loss) for the year | - | - | - | - | - | - | - | - | 169,437 | 169,437 | (130) | 169,307 |
| Total comprehensive (expense) income for the year | - | - | - | (749) | 1,915 | - | (55,588) | - | 169,437 | 115,015 | (672) | 114,343 |
| Issue of ordinary shares under Former Option Scheme and Existing Share Scheme | 8,616 | 104,966 | - | - | - | - | - | (77,627) | - | 35,955 | - | 35,955 |
| Payment made for equity-settled share-based payments (note 37) | - | - | - | - | - | - | - | (5,810) | - | (5,810) | - | (5,810) |
| Recognition of equity-settled share-based payments (note 37) | - | - | - | - | - | - | - | 76,893 | - | 76,893 | - | 76,893 |
| Profit appropriations | - | - | - | - | - | 255 | - | - | (255) | - | - | - |
| Transfer (note b) | - | - | - | - | - | - | - | (8,917) | 8,917 | - | - | - |
| Balance at 31 December 2014 | 311,579 | 1,090,444 | 15,514 | (749) | (951) | 166,495 | 434,463 | (14,165) | 1,918,088 | 3,920,718 | 9,152 | 3,929,870 |
| Other comprehensive expense for the year | - | - | - | (547) | (655) | - | (241,625) | - | - | (242,827) | (278) | (243,105) |
| Profit (loss) for the year | - | - | - | - | - | - | - | - | 229,066 | 229,066 | (402) | 228,664 |
| Total comprehensive expense (income) for the year | - | - | - | (547) | (655) | - | (241,625) | - | 229,066 | (13,761) | (680) | (14,441) |
| Issue of ordinary shares under Existing Share Scheme | 4,169 | 49,345 | - | - | - | - | - | (53,514) | - | - | - | - |
| Payment made for equity-settled share-based payments (note 37) | - | - | - | - | - | - | - | (5,389) | - | (5,389) | - | (5,389) |
| Recognition of equity-settled share-based payments (note 37) | - | - | - | - | - | - | - | 37,733 | - | 37,733 | - | 37,733 |
| Dividends recognised as distribution (note 12) | - | - | - | - | - | - | - | - | (192,359) | (192,359) | - | (192,359) |
| Profit appropriations | - | - | - | - | - | 336 | - | - | (336) | - | - | - |
| Balance at 31 December 2015 | 315,748 | 1,139,789 | 15,514 | (1,296) | (1,606) | 166,831 | 192,838 | (35,335) | 1,954,459 | 3,746,942 | 8,472 | 3,755,414 |

Notes:

- (a) The amount represents the remeasurement of defined benefit pension plans and the other reserve arising from the effects of changes in ownership in certain subsidiaries when there was no change in control.
- (b) The amount represents aggregate of the amount previously recognised in share compensation reserve in respect of those share options forfeited after vesting date.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Profit before tax | 290,164 | 268,150 |
| Adjustments for: | | |
| Depreciation and amortisation | 140,355 | 143,948 |
| Share-based payment expenses | 37,733 | 76,893 |
| Write down of inventories | 19,852 | 24,158 |
| Impairment loss recognised for interests in associates | 8,112 | 4,750 |
| Interest expense | 5,777 | 10,441 |
| Share of loss of associates | 5,172 | 6,693 |
| Impairment loss recognised for an available-for-sale investment | 5,000 | – |
| Impairment loss recognised for property, plant and equipment | 2,554 | 34,932 |
| Loss (gain) from changes in fair value of financial assets classified as held-for-trading | 1,902 | (971) |
| Loss (gain) on disposal of property, plant and equipment | 1,429 | (3,179) |
| Share of loss of joint ventures | 605 | 1,466 |
| Impairment loss recognised (reversed) in respect of trade receivables | 1 | (79) |
| Gain on disposal of prepaid lease payments | (224) | – |
| Gain on deemed disposal of interests in associates | (284) | – |
| Deferred income recognised to income | (1,801) | (1,828) |
| Gain from changes in fair value of financial assets designated as fair value through profit or loss | (18,447) | (14,894) |
| Interest income | (43,379) | (61,868) |
| Operating cash flows before movements in working capital | 454,521 | 488,612 |
| Decrease (increase) in inventories | 203,674 | (393,857) |
| Decrease (increase) in trade and other receivables | 635,713 | (797,939) |
| Decrease (increase) in trade and other payables | (365,316) | 939,695 |
| Decrease in provision | (7,938) | (2,727) |
| Cash generated from operations | 920,654 | 233,784 |
| Income taxes paid | (75,424) | (28,072) |
| Interest paid | (6,970) | (9,273) |
| Interest received | 44,285 | 61,498 |
| Payments made for share-based payment expenses | (5,389) | (5,810) |
| NET CASH FROM OPERATING ACTIVITIES | 877,156 | 252,127 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

| | 2015 US\$'000 | 2014 US\$'000 |
|--|--------------------|------------------|
| INVESTING ACTIVITIES | | |
| Purchase of short-term investments | (3,121,201) | (1,386,108) |
| Purchase of available-for-sale investments | (227,711) | (34,555) |
| Purchase of property, plant and equipment | (172,204) | (139,347) |
| Acquisition of investments in associates | (2,811) | (11,577) |
| Proceeds on settlements of short-term investments | 3,025,748 | 1,103,787 |
| Withdrawal (placement) of bank deposits for investing purpose | 202,533 | (137,717) |
| Proceeds on disposal of property, plant and equipment | 17,801 | 35,390 |
| Proceeds from disposal of financial assets classified as held-for-trading | 4,993 | – |
| Proceeds on disposal of prepaid lease payments | 1,388 | – |
| Cash transferred by customer for purchase of property, plant and equipment | – | 75 |
| NET CASH USED IN INVESTING ACTIVITIES | (271,464) | (570,052) |
| FINANCING ACTIVITIES | | |
| Bank borrowings repaid | (3,239,490) | (3,371,736) |
| Dividends paid | (192,359) | – |
| Bank borrowings raised | 3,075,074 | 3,413,849 |
| Proceeds from issue of shares | – | 35,955 |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (356,775) | 78,068 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 248,917 | (239,857) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 1,844,192 | 2,124,079 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | (142,803) | (40,030) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH | 1,950,306 | 1,844,192 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 February 2000 under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 3 February 2005. The Company's parent company is Foxconn (Far East) Limited (incorporated in the Cayman Islands) and its ultimate holding company is Hon Hai Precision Industry Co. Ltd. ("Hon Hai") (incorporated in Taiwan and its shares are listed on the Taiwan Stock Exchange Corporation). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. The Group provides a full range of manufacturing services to its customers in connection with the production of handsets. The principal activities of its principal subsidiaries are set out in note 38.

The consolidated financial statements are presented in United States Dollars ("US\$") which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time:

| | |
|----------------------|---|
| Amendments to IAS 19 | Defined benefit plans: Employee contributions |
| Amendments to IFRSs | Annual improvements to IFRSs 2010–2012 cycle |
| Amendments to IFRSs | Annual improvements to IFRSs 2011–2013 cycle |

The application of the above amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|--|
| IFRS 9 | Financial instruments ¹ |
| IFRS 14 | Regulatory deferral accounts ² |
| IFRS 15 | Revenue from contracts with customers ¹ |
| IFRS 16 | Leases ³ |
| Amendments to IFRS 11 | Accounting for acquisitions of interests in joint operations ⁴ |
| Amendments to IAS 1 | Disclosure initiative ⁴ |
| Amendments to IAS 16 and IAS 38 | Clarification of acceptable methods of depreciation and amortisation ⁴ |
| Amendments to IFRSs | Annual improvements to IFRSs 2012–2014 cycle ⁴ |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer plants ⁴ |
| Amendments to IAS 27 | Equity method in separate financial statements ⁴ |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment entities: Applying the consolidation exception ⁴ |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture ⁵ |
| Amendments to IAS 7 | Disclosure initiative ⁶ |
| Amendments to IAS 12 | Recognition of deferred tax assets for unrealised losses ⁶ |

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for first annual IFRS financial statements beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after 1 January 2016

⁵ Effective for annual periods beginning on or after a date to be determined

⁶ Effective for annual periods beginning on or after 1 January 2017

IFRS 9 “Financial instruments”

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (“FVTOCI”) measurement category for certain simple debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(Continued)*

IFRS 9 “Financial instruments” *(Continued)*

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The directors of the Company do not anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group’s financial liabilities. Regarding the financial assets, the application may have impact on the amounts reported in respect of the Group’s available-for-sale (“AFS”) equity investments which are currently carried at cost less impairment. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(Continued)*

IFRS 15 “Revenue from contracts with customers”

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction contracts” and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group’s consolidated financial statements, which is currently reviewed by the Group. Thus, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the completion of the review.

Amendments to IFRS 11 “Accounting for acquisitions of interests in joint operations”

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 “Business combinations”. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 “Income taxes” regarding the recognition of deferred taxes at the time of acquisition and IAS 36 “Impairment of assets” regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to IFRS 11 may have an impact on the Group’s consolidated financial statements in future periods should such transactions arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(Continued)*

Amendments to IAS 16 and IAS 38 “Clarification of acceptable methods of depreciation and amortisation”

The amendments to IAS 16 “Property, plant and equipment” prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 “Intangible assets” introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- (a) when the intangible asset is expressed as a measure of revenue; or
- (b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group’s consolidated financial statements.

Amendments to IFRS 10 and IAS 28 “Sale or contribution of assets between an investor and its associate or joint venture”

The amendments to IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in associates and joint ventures” deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The amendments should be applied prospectively. The directors of the Company anticipate that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Group’s consolidated financial statements in future periods should such transactions arise.

The directors of the Company do not anticipate that the application of the other new and revised IFRSs will have a material impact on the results and financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with IFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based payment", leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)* Investments in associates and joint ventures *(Continued)*

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the 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 associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, 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 the investee 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 which the investment is acquired.

The requirements of IAS 39 "Financial instruments: Recognition and measurement" are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with its associate or a joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Property, plant and equipment which are transferred from customers in cash but the Group does not have control on such property, plant and equipment are not recognised as property, plant and equipment in the consolidated statement of financial position in accordance with IFRIC – 18 "Transfers of assets from customers".

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress and freehold land) over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land that has an unlimited useful life is not depreciated.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and for capital appreciation. Investment properties include land and buildings held for undetermined future use, which is regarded as held for capital appreciation purpose.

If an item of property, plant and equipment become an investment property because its use has changed as evidenced by end of owner-occupation, such transfer does not change the carrying amount of the property transferred. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Prepaid lease payments

Prepaid lease payments represent payment for leasehold interests in land under operating lease arrangements and are released to profit or loss over the terms of relevant land leases.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the terms of the relevant leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

Leasehold land classified as operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortised over the lease terms on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss upon disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US\$) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item 'general and administrative expenses'. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Contributions from employees to defined benefit plans

Discretionary contributions made by employees reduce service cost upon payment of these contributions to the plan.

As the contributions from employees are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into following specified categories, including financial assets at FVTPL, loans and receivables and AFS financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets are either held-for-trading or they are designated as at FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held-for-trading, including short-term investments, may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial instruments: Recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gain or loss from changes in fair value arising on remeasurement recognised in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and are included in the 'other income, gains and losses' line item. Fair value is determined in the manner described in note 5.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term trade and other receivables where the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for the financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of revaluation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

The Group's financial liabilities are generally classified into other financial liabilities. Other financial liabilities including bank borrowings and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options or ordinary shares granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options or ordinary shares granted vest immediately, with a corresponding increase in equity (share compensation reserve). The fair value of the ordinary shares granted shall be measured at the market price of the shares, and the fair value of the share options granted shall be estimated by applying an option pricing model.

At the end of the reporting period, the Group revises its estimates of the number of options or ordinary shares that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to share compensation reserve.

When the share options are exercised, the amount previously recognised in share compensation reserve will be transferred to share premium. When the share options are forfeited or cancelled after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share compensation reserve will be transferred to retained profits.

When new ordinary shares are issued pursuant to the award scheme, the fair value of the ordinary shares granted that vest immediately or without lock-up period is recognised as an expense in full at the grant date with corresponding increase in equity (share compensation reserve). When the ordinary share awards are granted with lock-up period, which has same meaning as vesting period, the fair value of such amounts granted at the grant date is expensed on a straight-line basis over the lock-up period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Significant influence over interests in associates

Although the Group only owns less than 20% equity interests in Diabell Co., Ltd. ("Diabell"), Ways Technical Corp., Ltd. ("Ways Technical") and migme Limited ("MIG"), the Group has significant influence over Diabell, Ways Technical and MIG by virtue of its right to appoint one out of five directors to the board of directors of Diabell, two out of seven directors to the board of directors of Ways Technical and two out of seven directors to the board of directors of MIG (see note 19).

Classification of investments as joint ventures

位吉股份有限公司 (also known as Ways Transworld Inc.) ("Ways Transworld") and FIH RadioShack (Asia) Retail Holdings Limited ("FIH RadioShack") are limited companies whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that specify that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Ways Transworld and FIH RadioShack are classified as joint ventures of the Group (see note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of property, plant and equipment

The impairment of certain property, plant and equipment used to provide manufacturing services to customers in connection with the production of handsets is based on the recoverable amount of those assets, which is the higher of fair value less costs of disposal or value in use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses. An impairment loss of US\$2,554,000 (2014: US\$34,932,000), being the excess of the carrying amount over the recoverable amount of property, plant and equipment, was recognised in profit or loss in the current year. The carrying amount of the property, plant and equipment as at 31 December 2015 is US\$853,547,000 (2014: US\$907,718,000) (see note 14).

Provision for warranty

Provision has been made for the costs to repair or replace defective goods, such as labour costs (whether incurred internal or external) and material costs, and costs that may not be recoverable from suppliers for the rework, in accordance with contractual terms or the Group's policy. In determining the amount of provisions, the management estimates the extent of repairs and replacements with reference to its past experience, technological needs and industrial averages for defective products. The estimation may be adversely affected by many factors, including additional variations to the manufacturing plans requested by the customers or because of technical needs, and unforeseen problems and circumstances. Any of these factors may affect the extent of repair or replacement required and therefore affect the ultimate repair and replacement costs to be incurred in the future periods. As at 31 December 2015, the provision is US\$19,093,000 (2014: US\$27,985,000).

Details of the movement on the provision are set out in note 31.

Income taxes

As at 31 December 2015, a deferred tax asset of US\$5,503,000 (2014: US\$8,224,000) in relation to unused tax losses of US\$20,897,000 (2014: US\$27,413,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of US\$795,387,000 (2014: US\$849,896,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Income taxes *(Continued)*

As at 31 December 2015, an income tax of US\$3,206,000 (2014: US\$3,000,000) has been recognised in respect of the withholding tax provided for distributed profits of certain subsidiaries in the People's Republic of China (the "PRC"). No deferred tax has been provided for the undistributed profits of US\$1,191,811,000 (2014: US\$1,009,903,000) in remaining subsidiaries in the PRC as 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.

Deferred tax assets were also recognised for other deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US\$167,781,000 (2014: US\$214,864,000).

At 31 December 2015, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US\$154,026,000 (2014: US\$175,596,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

In cases where the actual future taxable profits generated are less or more than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or recognition takes place.

Fair value measurements and valuation processes

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

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

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 5 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of unlisted equity investments classified as AFS

In determining impairment of unlisted equity investments classified as AFS, the Group estimated its share of the present values of the estimated future cash flows expected to be generated by the investments. Any impairment loss is recognised by write down of the investments to their estimated recoverable amounts. Where the actual future cash flows are less than the expected amounts, an additional impairment loss may arise, and vice versa. After making such assessment, the directors of the Company are of the view that an impairment loss of US\$5,000,000 (2014: nil) of unlisted equity investments classified as AFS was necessary during the current year. As at 31 December 2015, the carrying amount of the unlisted equity investments is US\$248,735,000 (2014: US\$17,466,000). Details of the investments are disclosed in note 18.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Financial assets | | |
| Fair value through profit or loss | | |
| Derivatives (included in other receivables) | – | 27 |
| Short-term investments | 385,138 | 299,440 |
| | 385,138 | 299,467 |
| Available-for-sale financial assets | 255,939 | 25,217 |
| Loans and receivables | | |
| Trade and other receivables | 1,500,897 | 2,289,914 |
| Bank deposits | 272,218 | 523,734 |
| Bank balances and cash | 1,950,306 | 1,844,192 |
| | 3,723,421 | 4,657,840 |
| | 4,364,498 | 4,982,524 |
| Financial liabilities | | |
| Fair value through profit or loss | | |
| Derivatives (included in other payables) | 5 | 6,777 |
| At amortised cost | | |
| Trade and other payables | 1,514,608 | 2,191,648 |
| Bank borrowings | 13,367 | 178,730 |
| | 1,527,975 | 2,370,378 |
| | 1,527,980 | 2,377,155 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include derivatives, bank deposits, bank balances and cash, AFS investments, short-term investments, trade and other receivables, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank loans (see note 26 for details of these borrowings). The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise. Cash flow interest rate risk in relation to variable-rate bank balances and deposits is considered insignificant as most of them are short-term in nature. Accordingly, no interest rate sensitivity analysis is prepared.

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign currency risk arises when the Group's recognised assets and liabilities are denominated in a currency that is not the Group entity's functional currency.

The Group manages its foreign currency exposures by non-financial techniques such as managing the transaction currency, leading and lagging payments, receivable management, etc. In addition, the Group sometimes obtains bank borrowings in various foreign currencies and enters into short-term forward foreign currency contracts (less than 3 months) for hedging purpose. The Group utilises a variety of forward foreign currency contracts to hedge its exposure to foreign currencies on a regular basis.

As at 31 December 2015, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US\$1,737,000 (2014: US\$84,765,000), and their fair values are estimated to be approximately US\$5,000 liabilities (2014: US\$27,000 assets and US\$6,777,000 liabilities), and are included as other payables (2014: other receivables and other payables, respectively), at the end of the reporting period. The contracts mainly related to buying of US\$ (2014: US\$ and Euro) with maturities in first quarter of the following year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

The monetary assets and liabilities of Group entities, which are denominated in a currency other than their respective functional currency, are mainly bank balances and cash, trade and other receivables, trade and other payables and bank borrowings, denominated in US\$, and are summarised as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|--------------------|------------------|------------------|
| Assets | | |
| US\$ | 1,585,867 | 2,301,203 |
| Liabilities | | |
| US\$ | (562,537) | (1,449,519) |

The Group's bank borrowings of approximately US\$13,367,000 (2014: US\$46,730,000) at the end of the reporting period are denominated in US\$ other than the functional currency of respective Group entities and are included in the monetary liabilities disclosed above.

Exchange rate sensitivity

At the end of the reporting period, in respect of monetary items (excluding derivatives) denominated in currency other than the functional currency of respective Group entities, if exchange rates of the functional currency against US\$ had been appreciated/depreciated by 3% (2014: 3%) and all other variables were held constant, the Group's profit would decrease/increase by approximately US\$30,528,000 (2014: the Group's profit would decrease/increase by approximately US\$25,354,000) for the year. In the current year, global currency market was tremendously volatile. Exchange rates of US\$ versus other currencies fluctuated over the year which affected the fair values of the monetary items, such as forward foreign exchange contracts, trade and other receivables and bank borrowings of the Group, especially Renminbi ("RMB"), for which RMB/US\$ exchange rate ranged between 0.1634 and 0.1540 in the current year. The effect of such fluctuation is closely monitored by the management of the Group to minimise the related effect on the overall result of the Group.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2015 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. A major portion of the Group's trade debts are receivables from industry leaders or multinational customers with good financial background. Meanwhile, in order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

Credit risk in mobile phone handset industry is concentrated on a few global handset manufacturers. However, with the strong financial background and good creditability of the global handset manufacturers, the management considers there is no significant credit risk. The Group also seeks to maintain strict control over the creditability of customers and its outstanding receivables. In determining whether there is objective evidence of impairment loss, the Group takes into consideration of the future cash flows of the relevant receivables.

The credit risk on liquid funds is limited because the counterparties are banks with higher credit ratings assigned by international credit-rating agencies and those global handset manufacturers which have long-term business relationship with the Group.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, who has built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows.

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are six months (2014: one to three months) and the maturity periods of other financial liabilities are within three months. Out of the total bank borrowings, no bank borrowing (2014: US\$53,000,000) contains a repayment on demand clause.

As at 31 December 2015, the Group has available unutilised banking facilities of approximately US\$2,170,148,000 (2014: US\$1,972,057,000). There was no pledge of assets in relation to the banking facilities as at 31 December 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. FINANCIAL INSTRUMENTS *(Continued)*

(c) 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 (level 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

| Financial assets/ financial liabilities | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key inputs | Significant unobservable input(s) | Sensitivity/ relationship of unobservable inputs to fair value |
|---|---|---|-------------------------|--|--|---|
| | 31.12.2015 US\$'000 | 31.12.2014 US\$000 | | | | |
| Held-for-trading non-derivative financial assets classified as short-term investments in the consolidated financial statements | Nil | Listed equity securities in the United States – 6,895 | Level 1 | Quoted bid prices in an active market | N/A | N/A |
| Forward foreign exchange contracts classified as other receivables and other payables in the consolidated statement of financial position | Assets – Nil and liabilities – 5 | Assets – 27 and liabilities – 6,777 | Level 2 | Fair value derived from observable forward exchange rates at the end of the reporting period | N/A | N/A |
| Private fund classified as AFS investment in the consolidated financial statements | Investment in a private fund domiciled in the Cayman Islands – 7,204 | Investment in a private fund domiciled in the Cayman Islands – 7,751 | Level 2 | Fair value derived from observable market values of underlying assets quoted by relevant stock exchanges at the end of the reporting period | N/A | N/A |
| Short-term investments designated as financial assets at FVTPL | Investment in interest bearing instruments – 385,138 | Investment in interest bearing instruments – 292,545 | Level 3 | Income approach – discounted cash flow method was used to capture the present value of the expected return on a prudent basis, assumed to approximate the minimum return, based on the Group's experience with the deposits which have matured to date | Expected guaranteed interest rate, mainly taken into account different counterpart financial institution, which ranged from 3.30% to 3.80% per annum | The higher the expected guaranteed interest rate, the higher the fair value, and vice versa |

There were no transfers between level 1 to 3 during the years ended 31 December 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments *(Continued)*

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

For the other financial assets and financial liabilities, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

(d) Financial assets and financial liabilities subject to offsetting

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

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

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

| Financial assets/liabilities subject to offsetting | As at 31 December 2014 | | |
|--|--|--|---|
| | Gross amounts of recognised financial assets (liabilities) | Gross amounts of recognised financial assets set off in the consolidated statement of financial position | Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position |
| | US\$'000 | US\$'000 | US\$'000 |
| Bank balances | 799,173 | (799,173) | – |
| Bank borrowings | (799,173) | 799,173 | – |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT INFORMATION

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

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

Segment revenue and results

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:

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Segment revenue (external sales) | | |
| Asia | 5,269,301 | 4,260,700 |
| Europe | 313,320 | 805,266 |
| America | 1,868,371 | 1,763,924 |
| Total | 7,450,992 | 6,829,890 |
| Segment profit | | |
| Asia | 368,257 | 418,148 |
| Europe | 829 | 13,050 |
| America | 67,657 | 88,403 |
| Other income, gains and losses | 436,743 | 519,601 |
| General and administrative expenses | (187,813) | (195,450) |
| Research and development expenses | (114,633) | (142,921) |
| Impairment loss recognised for property, plant and equipment | (2,554) | (34,932) |
| Impairment loss recognised for interests in associates | (8,112) | (4,750) |
| Interest expense on bank borrowings | (5,777) | (10,441) |
| Share of loss of associates | (5,172) | (6,693) |
| Share of loss of joint ventures | (605) | (1,466) |
| Profit before tax | 290,164 | 268,150 |

Majority of the Group's sales to Asian customers is attributed to the PRC.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

| | 2015 US\$'000 | 2014 US\$'000 |
|--------------------------------|------------------|------------------|
| ASSETS | | |
| Segment assets | | |
| Allocated | | |
| Asia | 1,115,940 | 1,491,054 |
| Europe | 142,218 | 339,475 |
| America | 541,775 | 791,573 |
| Total | 1,799,933 | 2,622,102 |
| Unallocated | | |
| Property, plant and equipment | 829,002 | 872,011 |
| Inventories | 308,475 | 552,569 |
| Cash and bank deposits | 1,769,560 | 2,086,433 |
| Others | 562,292 | 558,965 |
| Corporate assets | 535,753 | 130,442 |
| Consolidated total assets | 5,805,015 | 6,822,522 |
| LIABILITIES | | |
| Segment liabilities | | |
| Allocated | | |
| Europe | 318 | 238 |
| America | 71,036 | 124,796 |
| Total | 71,354 | 125,034 |
| Unallocated | | |
| Trade and other payables | 1,784,935 | 2,368,411 |
| Others | 45,978 | 58,175 |
| Corporate liabilities | 147,334 | 341,032 |
| Consolidated total liabilities | 2,049,601 | 2,892,652 |

For the purposes of monitoring segment performances and allocating resources among segments, trade receivables from Asia operations are allocated to Asia segment, while certain property, plant and equipment, inventories, trade and other receivables and cash and cash equivalents relating to Europe and America operations are allocated to Europe and America segments. Segment liabilities represent certain trade and other payables and provision for warranty relating to the Europe and America operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information

| | Year ended 31 December 2015 | | | | |
|---|-----------------------------|--------------------|---------------------|-------------------------|--------------------------|
| | Asia US\$'000 | Europe US\$'000 | America US\$'000 | Unallocated US\$'000 | Consolidated US\$'000 |
| Amounts included in the measurement of segment profit or loss or segment assets and liabilities: | | | | | |
| Capital additions | – | 177 | 6,041 | 165,986 | 172,204 |
| Depreciation and amortisation | – | 548 | 4,544 | 135,263 | 140,355 |
| (Gain) loss on disposal of property, plant and equipment and prepaid lease payments | – | (136) | 534 | 807 | 1,205 |
| (Reversal of) allowance for doubtful debts, net | (35) | – | 36 | – | 1 |
| Provision for warranty | 3,536 | 4 | 12 | – | 3,552 |
| Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss: | | | | | |
| Impairment loss recognised for an AFS investment | – | – | – | 5,000 | 5,000 |
| Impairment loss recognised for interests in associates | – | – | – | 8,112 | 8,112 |
| Impairment loss recognised for property, plant and equipment | – | – | – | 2,554 | 2,554 |
| Gain from changes in fair value of financial assets designated as FVTPL | – | – | – | (18,447) | (18,447) |
| Loss from changes in fair value of financial assets classified as held-for-trading | – | – | – | 1,902 | 1,902 |
| Write down of inventories to net realisable value | – | – | – | 19,852 | 19,852 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT INFORMATION *(Continued)* Segment assets and liabilities *(Continued)* **Other information** *(Continued)*

| | Year ended 31 December 2014 | | | | |
|--|-----------------------------|--------------------|---------------------|-------------------------|--------------------------|
| | Asia US\$'000 | Europe US\$'000 | America US\$'000 | Unallocated US\$'000 | Consolidated US\$'000 |
| Amounts included in the measurement of segment profit or loss or segment assets and liabilities: | | | | | |
| Capital additions | – | – | 6,783 | 132,564 | 139,347 |
| Depreciation and amortisation | – | 675 | 5,129 | 138,144 | 143,948 |
| (Gain) loss on disposal of property, plant and equipment | – | (51) | (3,859) | 731 | (3,179) |
| Allowance (reversal of allowance) for doubtful debts, net | 15 | – | (94) | – | (79) |
| Provision for warranty | 8,771 | – | 50 | – | 8,821 |
| Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss: | | | | | |
| Impairment loss recognised for interest in an associate | – | – | – | 4,750 | 4,750 |
| Impairment loss recognised for property, plant and equipment | – | – | – | 34,932 | 34,932 |
| Gain from changes in fair value of financial assets designated as FVTPL | – | – | – | (14,894) | (14,894) |
| Gain from changes in fair value of financial assets classified as held-for-trading | – | – | – | (971) | (971) |
| Write down of inventories to net realisable value | – | – | – | 24,158 | 24,158 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located in the PRC (country of domicile), United States of America ("USA"), United Mexican States ("Mexico") and other countries.

Information about the Group's revenue from external customers and its non-current assets is presented based on geographical location of operations.

| | Revenue from external customers | | Non-current assets | |
|---------------------------|---------------------------------|------------------|--------------------|------------------|
| | 2015 US\$'000 | 2014 US\$'000 | 2015 US\$'000 | 2014 US\$'000 |
| PRC (country of domicile) | 6,995,450 | 6,403,983 | 869,155 | 920,227 |
| USA | 711 | 1,055 | 2,697 | 685 |
| Mexico | 131,729 | 120,716 | 14,072 | 17,096 |
| Other countries | 323,102 | 304,136 | 80,411 | 89,975 |
| | 7,450,992 | 6,829,890 | 966,335 | 1,027,983 |

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|-------------------------|------------------|------------------|
| Customer A ¹ | 1,910,526 | 1,887,437 |
| Customer B ¹ | 1,213,281 | 1,146,023 |
| Customer C ¹ | 785,140 | 840,798 |
| Customer D ¹ | 756,987 | 829,115 |

¹ Revenue from provision of manufacturing services to customers located in Asia, Europe and America in connection with the production of handsets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. OTHER INCOME, GAINS AND LOSSES

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| An analysis of the Group's other income, gains and losses is as follows: | | |
| Interest income from bank deposits | 43,379 | 61,868 |
| Service income | 69,217 | 114,326 |
| Sales of materials and scraps | 22,652 | 13,717 |
| Repairs and modifications of mouldings | 25,666 | 28,252 |
| Net foreign exchange gain (loss) | 49,607 | (315) |
| Government subsidies (<i>note</i>) | 17,010 | 16,085 |
| Rental income | 9,233 | 6,396 |
| (Loss) gain on disposal of property, plant and equipment | (1,429) | 3,179 |
| Gain from changes in fair value of financial assets designated as FVTPL | 18,447 | 14,894 |
| (Loss) gain from changes in fair value of financial assets classified as held-for-trading | (1,902) | 971 |
| Gain on disposal of prepaid lease payments | 224 | – |
| Impairment loss recognised for an AFS investment | (5,000) | – |
| Others | 200 | 155 |
| | 247,304 | 259,528 |

Note: This mainly represented subsidies granted for the Group's operations in the PRC.

8. PROFIT BEFORE TAX

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Profit before tax has been arrived at after charging (crediting): | | |
| Amortisation of prepaid lease payments (included in general and administrative expenses) | 1,071 | 1,098 |
| Depreciation of property, plant and equipment | 138,848 | 142,682 |
| Depreciation of investment properties | 436 | 168 |
| Total depreciation and amortisation | 140,355 | 143,948 |
| Staff costs | | |
| Directors' emoluments | 6,438 | 3,681 |
| Retirement benefit scheme contributions (excluding directors) | 56,223 | 47,584 |
| Other staff costs | 253,207 | 300,504 |
| Equity-settled share-based payments | 37,733 | 76,893 |
| Total staff costs | 353,601 | 428,662 |
| Auditor's remuneration | 912 | 796 |
| Cost of inventories recognised as expense | 7,041,549 | 6,373,790 |
| Impairment loss recognised (reversed) in respect of trade receivables, net | 1 | (79) |
| Provision for warranty | 3,552 | 8,821 |
| Write down of inventories to net realisable value | 19,852 | 24,158 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive of the Company were as follows:

| 2015 | Other emoluments | | | | Total 2015 US\$'000 |
|--|------------------|---|--|--|---------------------------|
| | Fees US\$'000 | Basic salaries and allowances US\$'000 | Performance- based or discretionary bonus US\$'000 (Note) | Retirement benefit scheme contributions US\$'000 | |
| Tong Wen-hsin | – | 182 | 623 | – | 805 |
| Chih Yu Yang (also acting as the chief executive) | – | 88 | 5,012 | – | 5,100 |
| Lee Jer Sheng | – | 53 | 378 | – | 431 |
| Lau Siu Ki | 31 | 9 | – | – | 40 |
| Daniel Joseph Mehan | 31 | – | – | – | 31 |
| Chen Fung Ming | 31 | – | – | – | 31 |
| Lee Kuo Yu | – | – | – | – | – |
| | 93 | 332 | 6,013 | – | 6,438 |

| 2014 | Other emoluments | | | | Total 2014 US\$'000 |
|--|------------------|---|--|--|---------------------------|
| | Fees US\$'000 | Basic salaries and allowances US\$'000 | Performance- based or discretionary bonus US\$'000 (Note) | Retirement benefit scheme contributions US\$'000 | |
| Tong Wen-hsin | – | 182 | 183 | – | 365 |
| Chih Yu Yang (also acting as the chief executive) | – | 94 | 2,729 | – | 2,823 |
| Lee Jer Sheng | – | 64 | 327 | – | 391 |
| Lau Siu Ki | 31 | 9 | – | – | 40 |
| Daniel Joseph Mehan | 31 | – | – | – | 31 |
| Chen Fung Ming | 31 | – | – | – | 31 |
| Lee Kuo Yu | – | – | – | – | – |
| | 93 | 349 | 3,239 | – | 3,681 |

Note: The performance-based or discretionary bonus, including share-based payments, is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

The chief executive of the Company is also its director and therefore the emoluments of the chief executive have been disclosed above.

Neither the chief executive nor any of the directors waived any emoluments and were paid as compensation for loss of office and as incentive to join or upon joining the Group during the years ended 31 December 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2014: three) executive directors of the Company, whose emoluments are included in note 9 above. The emoluments of the remaining two (2014: two) individuals were as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Salaries and other benefits | 112 | 131 |
| Performance-related incentive payments | 694 | 474 |
| | 806 | 605 |

Their emoluments were within the following bands:

| | Number of employees | |
|--------------------------------|---------------------|------|
| | 2015 | 2014 |
| HK\$2,000,001 to HK\$2,500,000 | – | 2 |
| HK\$2,500,001 to HK\$3,000,000 | 1 | – |
| HK\$3,000,001 to HK\$3,500,000 | 1 | – |
| | 2 | 2 |

11. INCOME TAX EXPENSE

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Current tax | | |
| – Hong Kong | – | – |
| – Other jurisdictions | 48,413 | 89,558 |
| – Withholding tax for distributed profit of investments in the PRC | 3,206 | 3,000 |
| | 51,619 | 92,558 |
| (Over)underprovision in prior years | | |
| – Hong Kong | – | – |
| – Other jurisdictions | (243) | 7,359 |
| | (243) | 7,359 |
| | 51,376 | 99,917 |
| Deferred tax (<i>note 21</i>) | | |
| – Current year | 10,124 | (1,074) |
| | 10,124 | (1,074) |
| | 61,500 | 98,843 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. INCOME TAX EXPENSE *(Continued)*

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2014: 25%). Two of the Company's PRC subsidiaries were awarded with the Advanced - Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% during 2013 to 2016, respectively. Except these two subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2014: 25%).

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

During the year ended 31 December 2014, one of the Company's subsidiaries received a tax notice from the tax authority in Reynosa which required such subsidiary to pay the tax undercharged in 2009 of approximately US\$18,614,000 (of which US\$10,529,000 is the related potential tax penalty). The Group lodged objection to the tax authority and the negotiation on this tax assessment has not yet finalised up to the date of the report. In the opinion of the directors of the Company, it was considered the exposure should be less than US\$18,614,000, and therefore, the Group has made a tax provision of US\$17,888,000 (of which US\$10,529,000 is the related potential tax penalty which has been charged to administrative expenses) during the year ended 31 December 2014.

According to a joint circular of the Ministry of Finance and State Administration of Taxation in the PRC, Cai Shui 2010 No.1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter shall be subject to the Enterprise Income Tax at 5% or 10% and withheld by the PRC entities, pursuant to Articles 3 and 27 of the New Law and Article 91 of its Detailed Implementation Rules.

The income tax expense for the year can be reconciled to the profit before tax as per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Profit before tax | 290,164 | 268,150 |
| Tax expense at the PRC income tax rate of 25% (2014: 25%) for the year <i>(note)</i> | 72,541 | 67,038 |
| Effect of different tax rates of subsidiaries | 179 | 3,753 |
| Effect of income taxed at concessionary tax rates | (344) | (1,277) |
| Tax effect of expenses not deductible for tax purpose | 21,359 | 48,266 |
| Tax effect of income not taxable for tax purpose | (12,637) | (20,256) |
| Tax effect of utilisation of tax losses/deductible temporary differences not recognised | (19,020) | (11,079) |
| Tax effect of utilisation of tax losses/deductible temporary differences previously not recognised | (4,985) | - |
| Tax effect of share of loss of associates | 1,293 | 1,673 |
| Tax effect of share of loss of joint ventures | 151 | 366 |
| Withholding tax for distributed profit of investments in the PRC | 3,206 | 3,000 |
| (Over)underprovision in prior years | (243) | 7,359 |
| Income tax expense for the year | 61,500 | 98,843 |

Note: The domestic income tax rate of 25% (2014: 25%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. DIVIDENDS

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Dividends recognised as distribution during the year | | |
| 2014 final – US\$0.00544 (2014: nil) per share | 42,359 | – |
| Special – US\$0.01926 (2014: nil) per share | 150,000 | – |
| | 192,359 | – |

Subsequent to the end of the reporting period, the board of directors of the Company has resolved to recommend the declaration and payment of a final dividend of US\$0.00869 (2014: US\$0.00544) per ordinary share of the Company (which in aggregate amounts to approximately US\$68,599,000 (2014: US\$42,359,000)), and a special dividend of US\$0.019 (2014: US\$0.01926) per ordinary share of the Company (which in aggregate amounts to approximately US\$150,000,000 (2014: US\$150,000,000)), respectively, for the year ended 31 December 2015, subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Earnings attributable to the owners of the Company | | |
| Earnings for the purposes of basic and diluted earnings per share | 229,066 | 169,437 |

| | 2015 | 2014 |
|--|---------------|---------------|
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 7,745,752,041 | 7,554,107,224 |
| Effect of dilutive potential ordinary shares relating to outstanding share awards (2014: share options and share awards) issued by the Company | 82,379,177 | 134,537,511 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 7,828,131,218 | 7,688,644,735 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings US\$'000 | Plant and machinery US\$'000 | Fixtures and equipment US\$'000 | Construction in progress US\$'000 | Total US\$'000 |
|---|-----------------------------------|------------------------------------|---------------------------------------|---|-------------------|
| COST | | | | | |
| At 1 January 2014 | 776,624 | 990,856 | 115,734 | 18,909 | 1,902,123 |
| Exchange adjustments | (15,165) | (16,072) | (3,206) | (149) | (34,592) |
| Additions | 987 | 120,068 | 3,467 | 14,825 | 139,347 |
| Disposals | (1,059) | (154,863) | (12,299) | (7,231) | (175,452) |
| Transfers | 3,208 | 6,873 | (78) | (10,003) | – |
| At 31 December 2014 | 764,595 | 946,862 | 103,618 | 16,351 | 1,831,426 |
| Exchange adjustments | (43,723) | (67,028) | (4,744) | (687) | (116,182) |
| Additions | 5,909 | 145,693 | 4,713 | 15,889 | 172,204 |
| Disposals | (2,641) | (137,926) | (10,244) | (2,512) | (153,323) |
| Transfers | 7,675 | 13,598 | – | (21,273) | – |
| Transfer to investment properties | (39,543) | – | – | – | (39,543) |
| At 31 December 2015 | 692,272 | 901,199 | 93,343 | 7,768 | 1,694,582 |
| DEPRECIATION AND IMPAIRMENT | | | | | |
| At 1 January 2014 | 237,885 | 592,522 | 84,430 | – | 914,837 |
| Exchange adjustments | (10,380) | (12,260) | (2,862) | – | (25,502) |
| Charge for the year | 31,735 | 108,454 | 2,493 | – | 142,682 |
| Eliminated on disposals | (580) | (132,086) | (10,575) | – | (143,241) |
| Transfers | (93) | 152 | (59) | – | – |
| Impairment loss recognised in profit or loss | 26,923 | 8,007 | 2 | – | 34,932 |
| At 31 December 2014 | 285,490 | 564,789 | 73,429 | – | 923,708 |
| Exchange adjustments | (18,195) | (38,639) | (3,912) | – | (60,746) |
| Charge for the year | 31,417 | 105,746 | 1,685 | – | 138,848 |
| Eliminated on disposals | (2,162) | (118,150) | (8,961) | – | (129,273) |
| Transfer to investment properties | (34,056) | – | – | – | (34,056) |
| Impairment loss recognised in profit or loss | – | 2,554 | – | – | 2,554 |
| At 31 December 2015 | 262,494 | 516,300 | 62,241 | – | 841,035 |
| CARRYING VALUES | | | | | |
| At 31 December 2015 | 429,778 | 384,899 | 31,102 | 7,768 | 853,547 |
| At 31 December 2014 | 479,105 | 382,073 | 30,189 | 16,351 | 907,718 |

Included in the land and buildings are freehold land, located in Hungary, Brasil, Mexico and India (2014: Hungary, Brasil, Mexico and India), having an aggregate cost of approximately US\$11,252,000 (2014: US\$11,452,000). All buildings are situated outside Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated using the straight-line method, after taking into account their estimated residual values, over the following periods:

| | |
|------------------------|---|
| Freehold land | Nil |
| Buildings | Shorter of 20–40 years and the lease term |
| Plant and machinery | 5–10 years |
| Fixtures and equipment | 3–5 years |

At 31 December 2015, directors of the Company appointed independent professional appraisers to perform appraisals on the Group's principal manufacturing assets for the purpose of determining whether the assets have been impaired for those groups of assets that have impairment indications, such as changing market environment and determined that a number of those assets were impaired. Impairment losses of US\$2,554,000 (2014: US\$26,923,000, US\$8,007,000 and US\$2,000) have been recognised in respect of plant and machinery (2014: buildings, plant and machinery and fixtures and equipment, respectively) for the year.

The recoverable amounts of the impaired plant and machinery (2014: plant and machinery and fixtures and equipment), being the higher of fair value less costs of disposal or value in use, of the relevant assets have been determined by the Group's management, which are their fair value less costs of disposal and assessed based on valuation performed by professional appraisers carried out at the end of the reporting period with reference to the depreciated replacement cost of the relevant assets and the recent sales prices for similar assets on the related market, which was classified as level 3 under IFRS 13 "Fair value measurement". The recoverable amount of the building impaired during the year ended 31 December 2014 was determined based on its value in use and estimated by reference to the projected discounted cash flows that are expected to generate from it. The discount rate used in measuring value in use was 12% per annum.

15. INVESTMENT PROPERTIES

| | US\$'000 |
|---|----------|
| COST | |
| At 1 January 2014 | 2,795 |
| Exchange adjustment | (379) |
| At 31 December 2014 | 2,416 |
| Exchange adjustment | (1,823) |
| Transfer from property, plant and equipment | 39,543 |
| At 31 December 2015 | 40,136 |
| DEPRECIATION | |
| At 1 January 2014 | – |
| Exchange adjustment | (23) |
| Provided for the year | 168 |
| At 31 December 2014 | 145 |
| Exchange adjustment | (1,016) |
| Provided for the year | 436 |
| Transfer from property, plant and equipment | 34,056 |
| At 31 December 2015 | 33,621 |
| CARRYING VALUES | |
| At 31 December 2015 | 6,515 |
| At 31 December 2014 | 2,271 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties at 31 December 2015 was US\$9,270,000. The fair value has been arrived at based on a valuation carried out by an independent valuer not connected with the Group. The fair value was determined by reference to recent market prices for similar properties in the same locations and conditions.

The above investment properties are depreciated using the straight-line method, after taking into account their estimated residual value, over 20 years.

16. PREPAID LEASE PAYMENTS

The amount represents land use rights in the PRC and India:

| | 2015 US\$'000 | 2014 US\$'000 |
|--------------------|------------------|------------------|
| Long leases | 37,938 | 42,474 |
| Medium-term leases | 4,379 | 4,610 |
| | 42,317 | 47,084 |

17. DEPOSIT FOR ACQUISITION OF PREPAID LEASE PAYMENTS

In 2010, the Group disposed of certain prepaid lease payments amounted to RMB190,699,000 (equivalent to approximately US\$30,700,000 and US\$31,160,000 as at 31 December 2015 and 2014, respectively) in exchange for other land use rights in the PRC. A receivable of the equivalent amount had been recorded as deposit paid for acquisition of prepaid lease payments as at 31 December 2015 and 2014.

18. AVAILABLE-FOR-SALE INVESTMENTS

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Unlisted equity investments <i>(note a)</i> | 248,735 | 17,466 |
| Investment in a private fund <i>(note b)</i> | 7,204 | 7,751 |
| Total of AFS investments analysed for reporting purposes as non-current assets | 255,939 | 25,217 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

18. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes:

- (a) At 31 December 2015, included in the equity investments, they are investments in unlisted equity securities issued by certain private entities, which are incorporated or operated in the PRC, the United States, India, Switzerland, United Kingdom, Taiwan, Samoa, the British Virgin Islands and the Cayman Islands (2014: the PRC, the United States and the Cayman Islands). They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

Part of the considerations for the purchase of the unlisted equity investments during the year comprised inventories and services of US\$9,083,000, which is a major non-cash transaction.

The largest investment included in the unlisted equity investments is the Group's investment in Jasper Infotech Private Limited ("JIP"), a private limited company incorporated in India, with a carrying amount of US\$200,004,000. JIP is engaged in owning and operating the website namely www.snapdeal.com, details of which are set out in the Company's announcement dated 18 August 2015.

During the year ended 31 December 2015, an impairment loss of US\$5,000,000 (2014: nil) was recognised for an unlisted equity investment which has been fully impaired as the directors of the Company considered that no future cash flow would be generated from that investment which is of no market value.

- (b) The amount represents the investment in a private fund domiciled in the Cayman Islands. The investment is measured at fair value derived from observable market values of underlying assets at the end of the reporting period.

19. INTERESTS IN ASSOCIATES

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Cost of investments in associates, less impairment | | |
| Listed outside Hong Kong | 20,324 | 20,432 |
| Unlisted | 18,422 | 18,511 |
| Share of post-acquisition loss and other comprehensive expense, net of dividend received | (9,387) | (3,866) |
| | 29,359 | 35,077 |
| Fair value of listed investments | 40,668 | 44,336 |

At 31 December 2015, the fair value of the Group's interests in associates, which are listed outside Hong Kong, was US\$40,668,000 (2014: US\$44,336,000) based on the market prices available on the respective stock exchanges, which is level 1 input in terms of IFRS 13 "Fair value measurement".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. INTERESTS IN ASSOCIATES (Continued)

At 31 December 2015 and 2014, the Group had interests in the following associates:

| Name of associate | Form of entity | Place of incorporation/ registration | Principal place of operation | Class of share/ interest held | Proportion of nominal value of issued capital/ interest held by the Group | | Proportion of voting power held by the Group | | Principal activity |
|--|---------------------------|--------------------------------------|------------------------------|-------------------------------|---|---------|--|--------|--|
| | | | | | 2015 | 2014 | 2015 | 2014 | |
| Ways Technical (note a) | Limited company | Taiwan | Taiwan | Ordinary | 13.04% | 13.04% | 28.57% | 28.57% | Providing special coating surface treatment services to branded handheld devices (such as handsets and GPS) manufacturers or original designing and manufacturing companies |
| MIG (note b) | Limited company | Australia | Singapore | Ordinary | 19.96% | 19.90% | 28.57% | 28.57% | Operating a multi-platform mobile and internet business focusing on social networking and entertainment in emerging markets |
| Diabell (note c) | Limited company | Republic of Korea ("Korea") | Korea | Ordinary | 19.998% | 19.998% | 20% | 20% | Designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products |
| CEExchange, LLC ("CEX") (note d) | Limited liability company | USA | USA | Class A membership interest | 30% | 30% | 30% | 30% | Engaging in the business of consumer electronics, including electronic trade-in and buy-back (including purchasing and reselling), refurbish management, overstock and return goods management and purchasing and sales representation |
| Rooti Labs Limited ("Rooti") (note e) | Limited company | Cayman Islands | Taiwan | Ordinary | 28.44% | 32% | 28.44% | 32% | Research and development of wearable products |
| 杭州耕德電子有限公司 (also known as Hangzhou Gengde Electronics Co., Ltd. ("Gengde")) (note f) | Limited company | PRC | PRC | Equity interest | 41.18% | – | 33.33% | – | Engaging in the business of design, development and manufacturing of electronic devices and handset accessories |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Current assets | 89,084 | 50,837 |
| Non-current assets | 99,576 | 109,480 |
| Current liabilities | (63,540) | (33,536) |
| Non-current liabilities | (3,758) | (2,777) |
| Net assets | 121,362 | 124,004 |
| Group's share of net assets of associates | 28,675 | 34,377 |
| Total revenue | 112,541 | 101,748 |
| Total loss for the year | (27,990) | (40,793) |
| Total other comprehensive (expense) income | (2,556) | 1,987 |
| Group's share of loss and other comprehensive expense of associates for the year | (5,521) | (6,738) |

As at 31 December 2015 and 2014, included in the cost of investments in associates is goodwill of US\$684,000 arising on the acquisition of associates. The movement of goodwill is set out as below:

| | 2015 US\$'000 | 2014 US\$'000 |
|---------------------------------------|------------------|------------------|
| COST | | |
| At 1 January | 15,478 | 14,794 |
| Arising on acquisition of associates | – | 684 |
| At 31 December | 15,478 | 15,478 |
| IMPAIRMENT | | |
| At 1 January | 14,794 | 10,044 |
| Provided for the year <i>(note a)</i> | – | 4,750 |
| At 31 December | 14,794 | 14,794 |
| CARRYING VALUE | | |
| At 31 December | 684 | 684 |

Notes:

- (a) Ways Technical's shares are traded on the Taiwan OTC Market. In the opinion of the directors of the Company, the Group is able to exercise significant influence over Ways Technical because it has the right to appoint two out of seven directors of Ways Technical.

During the year ended 31 December 2015, an impairment loss of US\$2,932,000 (2014: US\$4,750,000) was recognised in respect of listed investment in Taiwan based on the recoverable amount, being the higher of value in use and fair value less costs of disposal, determined by the Group's management. The fair value is measured by reference to the share price of Ways Technical on the Taiwan OTC Market, which is level 1 input in terms of IFRS 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

- (b) MIG's shares are traded on the Australian Securities Exchange. In the opinion of the directors of the Company, the Group is able to exercise significant influence over MIG because it has the right to appoint two out of seven directors of MIG. During the year ended 31 December 2015, MIG issued some new ordinary shares for asset acquisitions and services provided by employees and also offered two private placements of its ordinary shares. The Group participated in these two private placements and acquired 4,479,104 ordinary shares in MIG at the total cash consideration of approximately AU\$3,793,000 (equivalent to approximately US\$2,811,000) (the "Subscriptions"). As a result, the Group's interest in MIG increased from 19.90% to 19.96%. The Subscriptions resulted in a gain on deemed disposal of an associate of US\$14,000, which was recognised in profit or loss (included in other income) from the Subscriptions during the year ended 31 December 2015.

During the year ended 31 December 2014, the Group acquired 50,074,756 ordinary shares in MIG through (a) a private placement to subscribe for 40,000,000 ordinary shares in MIG at a cash consideration of AU\$8,000,000 (equivalent to US\$7,495,200) and (b) purchase of 3,168,406 shares of the Series 1 Preferred Stock of Project Goth, Inc. ("PGI") and convertible promissory notes convertible into 13,622,854 shares of the Series 1 Preferred Stock of PGI, which in aggregate were subsequently converted into 10,074,756 ordinary shares in MIG, at a cash consideration of US\$2,243,907.

- (c) Diabell is a private limited company established in Korea. In the opinion of the directors of the Company, the Group is able to exercise significant influence over Diabell because it has the right to appoint one out of five directors of Diabell.
- (d) On 5 September 2014, the Group entered into a contribution and option agreement (the "Contribution Agreement") with CEX and two members of CEX. Pursuant to the Contribution Agreement, the parties had agreed (among other things) as follows, in each case upon and subject to the terms and conditions set out therein:
1. the Group had agreed to make an initial capital contribution of US\$10,500,000 (the "Initial Capital Contribution") to CEX in exchange for a Class A membership interest representing 30% ownership of CEX on a fully-diluted basis (excluding any preferred membership interest in CEX);
 2. only if the earnings before interest, taxes, depreciation and amortisation ("EBITDA") of CEX in the year of 2014 multiplied by nine, subject to the maximum of US\$150,000,000 (the "2014 Valuation"), was greater than US\$35,000,000 (representing the agreed minimum valuation of CEX), the Group would make to CEX a further capital contribution, equivalent to 80% of the difference between 30% of the 2014 Valuation minus the Initial Capital Contribution (the "Further Capital Contribution"); and
 3. only if the 2015 first-half EBITDA was equal to or exceeded the 2014 first-half EBITDA, the Group would make to CEX a final capital contribution equivalent to 20% of the difference between 30% of the 2014 Valuation minus the Initial Capital Contribution (the "Final Capital Contribution").

Details of the Contribution Agreement are set out in the announcement of the Company dated 5 September 2014.

At 31 December 2015 and 2014, the conditions set out in (2) and (3) were not met. Therefore, no Further Capital Contribution or Final Capital Contribution would be made by the Group. Accordingly, the total consideration amounted to US\$10,500,000 only as at 31 December 2015 and 2014 and CEX is accounted as an associate.

During the year ended 31 December 2015, in the opinion of the directors of the Company, the carrying amount of CEX cannot be recovered by the recoverable amount, thus an impairment loss of US\$5,180,000 (2014: nil) was recognised in respect of the investment in CEX. The recoverable amount is based on the value in use calculation determined by the management's estimation of its share of the present value of the 5-year estimated future cash flows to be generated by CEX, discounted by a discount rate of 11.4%.

- (e) On 1 September 2014, the Group acquired 70,590 new ordinary shares in Rooti at a consideration of US\$125,000 in cash and provision of services which costed approximately US\$951,000.

During the year ended 31 December 2015, Rooti issued some new ordinary shares to a third-party investor. As a result, the Group's interest in Rooti decreased from 32% to 28.44% and a gain on deemed disposal of US\$270,000 was recognised in profit or loss (included in other income) during the year.

- (f) On 31 March 2015, the Group entered into an investment agreement to acquire 41.18% interests in Gengde, a private entity incorporated in the PRC and principally engaged in the business of design, development and manufacturing of electronic devices and handset accessories. The consideration was settled by transferring certain machinery, fixtures and equipment to Gengde valued at RMB29,533,000 (equivalent to approximately US\$4,820,000), which is a major non-cash transaction. The acquisition was completed on 14 May 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. INTERESTS IN JOINT VENTURES

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Cost of unlisted investments in joint ventures | 7,265 | 7,265 |
| Share of post-acquisition loss and other comprehensive expense | (3,368) | (2,592) |
| | 3,897 | 4,673 |

At 31 December 2015 and 2014, 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 | | Proportion of voting power held by the Group | | Principal activity |
|-----------------------|-----------------|--------------------------------------|------------------------------|----------------------|---|------|--|---------------|--|
| | | | | | 2015 | 2014 | 2015 | 2014 | |
| Ways Transworld | Limited company | Taiwan | Taiwan | Ordinary | 50% | 50% | 50% | 50% | Designing and manufacturing plastic molds for handheld devices |
| FIH RadioShack | Limited company | Hong Kong | PRC | Ordinary | 51% | 51% | 60% (note) | 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.

21. DEFERRED TAXATION

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

| | Allowances for inventories and trade and other receivables US\$'000 | Warranty provision US\$'000 | Accelerated tax depreciation US\$'000 | Tax losses US\$'000 | Deferred income US\$'000 (Note) | Others US\$'000 | Total US\$'000 |
|--|--|--------------------------------|--|------------------------|---------------------------------------|--------------------|-------------------|
| At 1 January 2014 | (14,700) | (2,813) | 2,143 | (11,315) | (8,198) | (26,892) | (61,775) |
| (Credit) charge to profit or loss for the year | (415) | (234) | 550 | 1,968 | 1,680 | (4,623) | (1,074) |
| Exchange adjustments | 196 | 29 | (302) | 1,123 | 37 | 735 | 1,818 |
| At 31 December 2014 | (14,919) | (3,018) | 2,391 | (8,224) | (6,481) | (30,780) | (61,031) |
| Charge (credit) to profit or loss for the year | 7,102 | (1,157) | 384 | 1,830 | 298 | 1,667 | 10,124 |
| Exchange adjustments | 651 | 232 | (372) | 891 | 361 | 2,212 | 3,975 |
| At 31 December 2015 | (7,166) | (3,943) | 2,403 | (5,503) | (5,822) | (26,901) | (46,932) |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. DEFERRED TAXATION *(Continued)*

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

| | 2015 US\$'000 | 2014 US\$'000 |
|--------------------------|------------------|------------------|
| Deferred tax assets | (47,082) | (61,280) |
| Deferred tax liabilities | 150 | 249 |
| | (46,932) | (61,031) |

At 31 December 2015, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US\$154,026,000 (2014: US\$175,596,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unused tax losses of approximately US\$816,284,000 (2014: US\$877,309,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US\$20,897,000 (2014: US\$27,413,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US\$795,387,000 (2014: US\$849,896,000) 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.

By reference to financial budgets, management believes that there will be sufficient future taxable profits or taxable temporary differences available in the future for the realisation of deferred tax assets which have been recognised in respect of tax losses and other temporary differences.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US\$1,191,811,000 (2014: US\$1,009,903,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

22. INVENTORIES

| | 2015 US\$'000 | 2014 US\$'000 |
|------------------|------------------|------------------|
| Raw materials | 155,729 | 245,393 |
| Work-in-progress | 73,922 | 106,870 |
| Finished goods | 102,985 | 243,309 |
| | 332,636 | 595,572 |

Inventories carried at net realisable value were as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|------------------|------------------|------------------|
| Raw materials | 95,962 | 196,223 |
| Work-in-progress | 79,302 | 162,945 |
| Finished goods | 33,945 | 26,808 |
| | 209,209 | 385,976 |

23. TRADE AND OTHER RECEIVABLES

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Trade receivables | 1,473,407 | 2,255,916 |
| Less: Allowance for doubtful debts | (38) | (44) |
| | 1,473,369 | 2,255,872 |
| Other taxes recoverables | 26,025 | 85,093 |
| Other receivables, deposits and prepayments | 95,967 | 104,139 |
| Total trade and other receivables | 1,595,361 | 2,445,104 |

The Group normally allows an average credit period of 30 to 90 days to its trade customers, except certain customers with a good track record which may be granted a longer credit period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

| | 2015 US\$'000 | 2014 US\$'000 |
|---------------|------------------|------------------|
| 0-90 days | 1,357,778 | 2,083,763 |
| 91-180 days | 107,902 | 159,682 |
| 181-360 days | 6,633 | 10,684 |
| Over 360 days | 1,056 | 1,743 |
| | 1,473,369 | 2,255,872 |

As at the end of the reporting period, 92% (2014: 92%) of the Group's trade receivables are neither past due nor impaired, and they are mainly receivables from certain global handset manufacturers that the Group considers have good credit standing. The Group seeks to maintain strict control over the creditability of customers and their respective outstanding receivables. Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customers. The creditability of customers is reviewed regularly.

As at 31 December 2015, trade receivables with the aggregate carrying amount of approximately US\$115,591,000 (2014: US\$172,109,000) that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Aging of trade receivables which are past due but not impaired is as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|---------------|------------------|------------------|
| 91-180 days | 107,902 | 159,682 |
| 181-360 days | 6,633 | 10,684 |
| Over 360 days | 1,056 | 1,743 |
| | 115,591 | 172,109 |

Movement in the allowance for doubtful debts:

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Balance at beginning of the year | 44 | 123 |
| Impairment losses recognised on receivables | 39 | 24 |
| Amounts recovered during the year | (38) | (103) |
| Exchange adjustments | (7) | - |
| Balance at end of the year | 38 | 44 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

24. SHORT-TERM INVESTMENTS

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Listed securities held-for-trading | – | 6,895 |
| Investments in interest bearing instruments designated as financial assets at FVTPL (<i>note</i>) | 385,138 | 292,545 |
| | 385,138 | 299,440 |

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

25. TRADE AND OTHER PAYABLES

| | 2015 US\$'000 | 2014 US\$'000 |
|-----------------------------|------------------|------------------|
| Trade payables | 1,251,143 | 1,969,509 |
| Accruals and other payables | 605,967 | 524,547 |
| | 1,857,110 | 2,494,056 |

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

| | 2015 US\$'000 | 2014 US\$'000 |
|---------------|------------------|------------------|
| 0–90 days | 1,180,589 | 1,917,632 |
| 91–180 days | 60,489 | 43,835 |
| 181–360 days | 6,802 | 5,824 |
| Over 360 days | 3,263 | 2,218 |
| | 1,251,143 | 1,969,509 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

26. BANK BORROWINGS

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Bank loans | 13,367 | 178,730 |
| Analysis of bank borrowings by currency: | | |
| US\$ | 13,367 | 178,730 |

The bank borrowings as at 31 December 2015 are unsecured, obtained with original maturity of six months (2014: one to three months) and carry interest at fixed interest rate of 1.10% (2014: 0.95% to 1.46%) per annum. Out of the total bank borrowings, no bank borrowing (2014: US\$53,000,000) contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 1.10% per annum (2014: 1.07% per annum).

During the year ended 31 December 2015, the interest expense of US\$5,777,000 (2014: US\$10,441,000) represented the interest on bank borrowings wholly repayable within five years.

27. SHARE CAPITAL

| | Number of shares | Amount US\$'000 |
|--|---------------------|--------------------|
| Ordinary shares of US\$0.04 each, authorised: | | |
| Balance at 1 January 2014, 31 December 2014 and 31 December 2015 | 20,000,000,000 | 800,000 |
| Ordinary shares of US\$0.04 each, issued and fully paid: | | |
| Balance at 1 January 2014 | 7,574,063,274 | 302,963 |
| Exercise of share options (<i>note 37(a)</i>) | 77,022,839 | 3,081 |
| Issue pursuant to the share scheme (<i>note 37(b)</i>) | 138,386,084 | 5,535 |
| Balance at 31 December 2014 | 7,789,472,197 | 311,579 |
| Issue pursuant to the share scheme (<i>note 37(b)</i>) | 104,230,955 | 4,169 |
| Balance at 31 December 2015 | 7,893,703,152 | 315,748 |

Note: The new shares issued in both years rank pari passu with the existing shares in all respects.

28. RESERVES

The Group's special reserve represents the difference between the paid-in capital of the subsidiaries acquired pursuant to the group reorganisation in 2004 and the nominal value of the Company's shares issued in exchange therefrom.

The Group's legal reserve represents statutory reserve attributable to the Company's subsidiaries in the PRC and Taiwan. As required by the laws in the PRC and Taiwan, appropriations are made from the profit of these subsidiaries to the legal reserve until the balance reaches 50% of the registered capital of the relevant subsidiaries. This reserve can only be used to make up losses incurred or to increase capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

29. DERIVATIVES

Currency derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group utilises a variety of forward foreign exchange contracts to manage its exchange rate exposures. The instruments adopted are primarily to hedge the currencies used in the Group's principal markets.

During the current year, a loss from the forward foreign exchange contracts of US\$5,000 (2014: loss of US\$6,750,000) was recognised in profit or loss and included in other income, gains and losses.

At the end of the reporting period, notional amount of major outstanding forward foreign exchange contracts that the Group has committed are as below:

| | 2015 US\$'000 | 2014 US\$'000 |
|------|------------------|------------------|
| US\$ | 1,737 | 83,428 |
| Euro | – | 1,337 |

As at 31 December 2015, the fair value of the Group's currency derivatives is estimated to be approximately US\$5,000 liabilities (2014: US\$27,000 assets and US\$6,777,000 liabilities), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates, and is included as other payables (2014: other receivables and other payables) at the end of the reporting period. The contracts outstanding as at 31 December 2015 mainly related to buying of US\$ (2014: US\$ and Euro) with maturities in the first quarter of 2016 (2014: first quarter of 2015).

30. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry interest at prevailing market rate of 3.22% (2014: 2.54%) per annum on average, with original maturity of over three months.

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate of 1.54% (2014: 1.98%) per annum on average.

Analysis of bank deposits and bank balances and cash by currency:

| | 2015 US\$'000 | 2014 US\$'000 |
|-------------------|------------------|------------------|
| US\$ | 1,013,356 | 1,062,129 |
| RMB | 923,894 | 975,531 |
| New Taiwan Dollar | 78,688 | 97,140 |
| Others | 206,586 | 233,126 |
| | 2,222,524 | 2,367,926 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

31. PROVISION

| | 2015 US\$'000 | 2014 US\$'000 |
|--------------------------|------------------|------------------|
| At 1 January | 27,985 | 31,503 |
| Exchange adjustments | (954) | (773) |
| Provision for the year | 3,552 | 8,821 |
| Utilisation of provision | (11,490) | (11,566) |
| At 31 December | 19,093 | 27,985 |

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.

32. DEFERRED INCOME

| | 2015 US\$'000 | 2014 US\$'000 |
|----------------------|------------------|------------------|
| Government subsidies | 27,219 | 30,716 |

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

33. CAPITAL COMMITMENTS

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Commitments for the acquisition of property, plant and equipment contracted but not provided for | 16,947 | 54,555 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Minimum lease payments under operating leases in respect of premises recognised for the year | 38,634 | 33,019 |

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases in respect of premises, which fall due as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Within one year | 5,874 | 4,862 |
| In the second to fifth years inclusive | 1,168 | 3,591 |
| | 7,042 | 8,453 |

Leases are negotiated, and rentals are fixed, for an average term of one to three years (2014: one to three years).

The Group as lessor

At the end of reporting period, certain investment properties are leased to the related parties of the Group but the Group had not contracted with the related parties for any future minimum lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. RELATED PARTY TRANSACTIONS

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

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Hon Hai | | |
| Sales of goods | 448 | 119 |
| Purchase of goods | 42,155 | 128,435 |
| Purchase of property, plant and equipment | 4,685 | 7,905 |
| Sales of property, plant and equipment | 1,028 | 80 |
| Lease expense – real properties | 761 | 701 |
| Subcontracting income | 44,097 | 36,999 |
| Consolidated services and subcontracting expense | 1,230 | 5,787 |
| General service income | – | 219 |
| General service expense | 1,059 | 441 |
| Subsidiaries of Hon Hai | | |
| Sales of goods | 459,236 | 311,908 |
| Purchase of goods | 626,225 | 310,790 |
| Purchase of property, plant and equipment | 95,009 | 84,511 |
| Sales of property, plant and equipment | 8,639 | 22,322 |
| Lease income – real properties | 2,039 | 1,793 |
| Lease income – non-real properties | 223 | – |
| Lease expense – real properties | 1,890 | 2,061 |
| Lease expense – non-real properties | 15,692 | 17,100 |
| Subcontracting income | 76,501 | 102,408 |
| Consolidated services and subcontracting expense | 189,057 | 129,804 |
| General service income | 1,450 | 2,317 |
| General service expense | 19,141 | 15,642 |
| Associates of Hon Hai | | |
| Sales of goods | 21,018 | 13,235 |
| Purchase of goods | 340,407 | 397,297 |
| Purchase of property, plant and equipment | 45 | 1,586 |
| Sales of property, plant and equipment | 186 | 1,349 |
| Lease income – non-real properties | 29 | 29 |
| Lease expense – real properties | 28 | 26 |
| Lease expense – non-real properties | – | 32 |
| Subcontracting income | 72 | 6,964 |
| Consolidated services and subcontracting expense | 14,467 | 12,045 |
| General service income | 26 | 42 |
| General service expense | 525 | 202 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. RELATED PARTY TRANSACTIONS *(Continued)*

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

| | 2015 US\$'000 | 2014 US\$'000 |
|-------------------------|------------------|------------------|
| Trade receivables: | | |
| Hon Hai | 6,432 | 3,616 |
| Subsidiaries of Hon Hai | 168,697 | 329,707 |
| Associates of Hon Hai | 7,331 | 18,800 |
| | 182,460 | 352,123 |
| Other receivables: | | |
| Hon Hai | 13 | 179 |
| Subsidiaries of Hon Hai | 4,483 | 4,319 |
| Associates of Hon Hai | 117 | 43 |
| | 4,613 | 4,541 |
| | 187,073 | 356,664 |
| Trade payables: | | |
| Hon Hai | 12,706 | 22,661 |
| Subsidiaries of Hon Hai | 260,704 | 314,285 |
| Associates of Hon Hai | 50,004 | 133,663 |
| | 323,414 | 470,609 |
| Other payables: | | |
| Hon Hai | 3,981 | 1,262 |
| Subsidiaries of Hon Hai | 16,062 | 20,772 |
| Associates of Hon Hai | 57 | 1,606 |
| | 20,100 | 23,640 |
| | 343,514 | 494,249 |

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

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|----------------------|------------------|------------------|
| Short-term benefits | 2,227 | 1,088 |
| Share-based payments | 6,569 | 4,816 |
| | 8,796 | 5,904 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. RELATED PARTY TRANSACTIONS *(Continued)*

- (d) During the year, the Group entered into the following transactions with associates and a subsidiary of a joint venture:

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Sales of goods | 8,298 | – |
| Purchase of goods | 48,788 | – |
| Sales of property, plant and equipment | 1,781 | – |
| Other income | 7,355 | – |

The amounts due to associates and a subsidiary of a joint venture were US\$19,941,000 (2014: US\$951,000), which were included in other payables, as at 31 December 2015.

36. RETIREMENT BENEFITS PLANS

Majority of the employees of the Company's subsidiaries are members of state-managed retirement benefit schemes operated by the government in the PRC. These subsidiaries in the PRC are required to contribute a specified percentage ranging from 5% to 20% of their payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

Certain subsidiaries of the Company operate defined benefit plans in Taiwan and Korea. Under the schemes, the employees are entitled to retirement benefits on attainment of a retirement age ranging from 55 to 60. The most recent actuarial valuations of plan assets and the present values of the defined benefit obligations were carried out at 31 December 2015 by independent valuers, Greatfine Wealth Management Consulting Inc. and Aon Hewitt Korea, respectively. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The principal actuarial assumptions used were as follows:

| | 2015 | 2014 |
|-----------------------------------|-------------|-------------|
| Discount rate | 1.50%–2.47% | 2.25%–2.64% |
| Expected rate of salary increases | 4.00%–5.00% | 3.00%–5.00% |

The actuarial valuations showed that the market value of plan assets was US\$6,086,000 (2014: US\$6,138,000) and that the actuarial value of these assets represented 110% (2014: 126%) of the benefits that had accrued to members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. RETIREMENT BENEFITS PLANS *(Continued)*

Amounts recognised in comprehensive income in respect of these defined benefit plans are as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Service cost: | | |
| Current service cost | 298 | 269 |
| Net interest (income) expense | (28) | 27 |
| Components of defined benefit costs recognised in profit or loss | 270 | 296 |
| Remeasurement on the net defined benefit liability: | | |
| Return on plan assets (excluding amounts included in net interest expense) | 5 | (8) |
| Actuarial gains and losses arising from changes in demographic assumptions | 31 | 135 |
| Actuarial gains and losses arising from changes in financial assumptions | 861 | (1,233) |
| Actuarial gains and losses arising from experience adjustments | (299) | (1,245) |
| Components of defined benefit costs recognised in other comprehensive income | 598 | (2,351) |
| Total | 868 | (2,055) |

Of the charge for the year, US\$271,000 (2014: US\$296,000) has been included in administrative expenses.

The actual return on plan assets was US\$136,000 (2014: US\$150,000) for the year ended 31 December 2015.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the Group's obligations in respect of its defined benefit retirement plans is as follows:

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Present value of funded defined benefit obligations | 5,556 | 4,875 |
| Fair value of plan assets | (6,086) | (6,138) |
| Surplus | (530) | (1,263) |
| Net asset arising from defined benefit obligations (included in other receivables) | (530) | (1,263) |

The Group also operates a number of defined contribution schemes in other overseas locations. Arrangements for these staff retirement benefits vary from country to country and are made in accordance with local regulations and custom.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

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

Under the Former Option Scheme, the board of directors of the Company (the Existing Option Scheme: the board of directors of the Company or its duly authorised officer(s) or delegate(s)) may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. They may at their discretion determine the specific exercisable period which should expire in any event no later than ten years from the effective date of the Former Option Scheme. For the Existing Option Scheme, the option granted will be subject to vesting period (as determined by the board of directors of the Company or its duly authorised officer(s) or delegate(s) at the time of granting the option) of up to six years or such other period which must not be more than ten years from the date of grant of the relevant option. In addition, the Company may, from time to time, grant share options to third party service providers for services provided by them to the Group.

The total number of shares which may initially be issued upon the exercise of all options to be granted under the Former Option Scheme, the Existing Option Scheme and any other share option scheme(s) (collectively, the "Option Schemes") adopted by the Company must not in aggregate exceed 10% of the total number of issued shares of the Company as of the date of listing of its shares on the Stock Exchange or the adoption date (as the case may be), i.e. must not exceed 683,940,002 shares under the Former Option Scheme and 757,380,227 shares under the Existing Option Scheme. Subject to the approval of the shareholders of the Company in general meeting, the limit may be refreshed to 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Schemes of the Company must not in aggregate exceed 30% of the number of issued shares of the Company from time to time. The maximum number of shares of the Company in respect of which options granted and to be granted to each eligible person under the Option Schemes of the Company in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to a substantial shareholder or an independent non-executive director, or their respective associates, in the 12-month period up to and including the date of such grant in aggregate over 0.10% of total number of issued shares of the Company from time to time and have an aggregate value exceeding HK\$5,000,000, such further grant of options will be required to be approved by the shareholders of the Company in general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

(a) Equity-settled share option scheme *(Continued)*

Under the Option Schemes, options granted must be taken up within 30 days after the date of offer upon payment of HK\$1.00 per offer. The Option Schemes do not contain any minimum period for which an option must be held before it can be exercised, though such minimum period may be specified by the board of directors of the Company under the Former Option Scheme or by the board of directors of the Company or its duly authorised officer(s) or delegate(s) under the Existing Option Scheme at the time of grant.

The exercise price of the Option Schemes is determined by the board of directors of the Company, and shall be the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

As at 31 December 2015 and 2014, no options have been granted under the Existing Option Scheme. All outstanding share options granted but not then exercised under the Former Option Scheme were lapsed in their entirety as at 31 December 2014 and therefore the Former Option Scheme was expired as at 31 December 2014. No share option is exercisable as at 31 December 2015 and 2014.

Details of specific categories of options granted under the Former Option Scheme are as follows:

| Option | Date of grant | Number of options granted | Vesting period | Exercise price HK\$ | Exercisable period | Estimated fair value of the options granted on the grant date US\$ | Closing price immediately before the date of grant HK\$ |
|--------|---------------|---------------------------|--|------------------------|---------------------------------------|---|--|
| 2011 | 8 July 2011 | 256,159,719 | Ranging from one to three years up to January 2014 | 3.62 | From vesting date to 31 December 2014 | 27,600,000 | 3.62 |

The following table discloses movements of the Company's share options held by employees and directors during the year ended 31 December 2015 and 2014:

| Option type | Outstanding at 1.1.2014 | Granted during the year of 2014 | Exercised during the year of 2014 | Lapsed/expired during the year of 2014 | Cancelled during the year of 2014 | Outstanding at 31.12.2014 and 31.12.2015 |
|-------------|-------------------------|---------------------------------|-----------------------------------|--|-----------------------------------|--|
| 2011 | 157,670,091 | – | (77,022,839) | (80,647,252) | – | – |

In respect of the share options exercised during the year ended 31 December 2014, the weighted average share price at the date of exercise was US\$0.57 (equivalent to HK\$4.42).

No expense (2014: an expense of US\$9,000) in relation to the share options granted by the Company was recognised by the Group for the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

(a) Equity-settled share option scheme *(Continued)*

The fair value of the share options was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

| | 2011 |
|------------------------------|--|
| Share price on date of grant | US\$0.47 (equivalent to HK\$3.62) |
| Exercise price | US\$0.47 (equivalent to HK\$3.62) |
| Expected volatility | 37% |
| Expected life | Vesting period plus 0.5 year to 1.48 years |
| Risk free rate | 0.30% to 0.67% |
| Dividend yield | 0% |

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Expected volatility for options granted in 2011 was determined by calculating the historical volatility of the Company's share price over past 12 months to grant date. The expected life in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

(b) Other share-based payment plan

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the board of directors of the Company) on 3 July 2014, the Company offered 10,900,786 ordinary shares to certain beneficiaries pursuant to the Existing Share Scheme, of which 187,891 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods within one year from the grant date. No consideration was payable on the grant of the shares. 10,170,697 ordinary shares were issued on 4 July 2014 and 730,089 ordinary shares were purchased by the trustee of the Existing Share Scheme from the stock market in July 2014.

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

The Group recognised total expense of US\$37,733,000 (2014: US\$76,884,000) for the year ended 31 December 2015 in relation to the ordinary shares awarded by the Company under the Share Schemes.

38. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2015 and 2014:

| Name of subsidiary | Form of business structure | Place of incorporation or establishment/ operation | Issued and paid-up share capital/ registered capital | Attributable equity interest held by the Company | | | | Principal activities |
|---------------------------------------|----------------------------|--|--|--|------|------------|---------|--|
| | | | | Directly | | Indirectly | | |
| | | | | 2015 | 2014 | 2015 | 2014 | |
| Chiun Mai Communication Systems, Inc. | Limited company | Taiwan | NT\$1,500,000,000 | - | - | 86.173% | 86.173% | Design and manufacture of handsets |
| Extra Right Enterprises Limited | Limited company | British Virgin Islands/PRC | US\$1 | - | - | 100% | 100% | Provision of services to group companies |
| FIH (Hong Kong) Limited | Limited company | Hong Kong/PRC | HK\$155,146,001 | - | - | 100% | 100% | Trading of handsets |
| FIH Co., Ltd. | Limited company | Taiwan | NT\$1,000,000 | 100% | 100% | - | - | Provision of services to group companies |
| FIH Mexico Industry SA de CV | Limited company | Mexico | MXN2,007,283,685 | - | - | 100% | 100% | Manufacture of handsets |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Form of business structure | Place of incorporation or establishment/ operation | Issued and paid-up share capital/ registered capital | Attributable equity interest held by the Company | | | | Principal activities |
|---|---------------------------------|--|--|--|------|------------|------|--|
| | | | | Directly | | Indirectly | | |
| | | | | 2015 | 2014 | 2015 | 2014 | |
| 富智康精密組件(北京)有限公司 (FIH Precision Component (Beijing) Co., Ltd.*) | Wholly foreign owned enterprise | PRC | US\$68,800,000 | – | – | 100% | 100% | Manufacture of handsets |
| 宏訊電子工業(杭州)有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.) | Wholly foreign owned enterprise | PRC | US\$126,800,000 | – | – | 100% | 100% | Manufacture of handsets |
| 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.*) | Wholly foreign owned enterprise | PRC | US\$178,520,000 | – | – | 100% | 100% | Manufacture of handsets |
| S&B Industry, Inc. | Corporation | USA | US\$31,594,767 | – | – | 100% | 100% | Repair services |
| Success World Holdings Limited | Limited company | Hong Kong | HK\$1,049,044,500 | 100% | 100% | – | – | Investment holding |
| Sutech Industry Inc. | Corporation | USA | US\$10,000 | – | – | 100% | 100% | Provision of logistics services to group companies |
| FIH do Brasil Indústria e Comércio de Eletrônicos Ltda. | Limited company | Brasil | BRL550,532,590 | – | – | 100% | 100% | Manufacture of handsets |
| 富智康(南京)通訊有限公司 (FIH (Nan Jing) Communications Co., Ltd.) | Wholly foreign owned enterprise | PRC | US\$17,500,000 | – | – | 100% | 100% | Research and development; sales |
| 貴州富智康精密電子有限公司 | Limited company | PRC | RMB10,000,000 | – | – | 100% | – | Research and development; sales |
| Rising Stars Mobile India Private Limited | Limited company | India | INR648,299,800 | – | – | 100% | – | Manufacture of handsets |
| 富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.*) | Wholly foreign owned enterprise | PRC | US\$75,000,000 | – | – | 100% | 100% | Manufacture of handsets |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Form of business structure | Place of incorporation or establishment/ operation | Issued and paid-up share capital/ registered capital | Attributable equity interest held by the Company | | | | Principal activities |
|--|---------------------------------------|--|--|--|------|------------|------|---|
| | | | | Directly | | Indirectly | | |
| | | | | 2015 | 2014 | 2015 | 2014 | |
| 富泰京精密電子(煙台)有限公司 (Futaijing Precision Electronics (Yantai) Co., Ltd.*) | Wholly foreign owned enterprise | PRC | US\$20,000,000 | - | - | 100% | 100% | Manufacture of handsets |
| 富智康精密電子(廊坊)有限公司 (FIH Precision Electronics (Lang Fang) Co., Ltd.) | Sino-foreign jointly owned enterprise | PRC | US\$475,500,000 | - | - | 100% | 100% | Manufacture of handsets |
| 富智康(成都)通訊科技有限公司 (FIH (Chengdu) Communication Technology Co., Ltd.) | Wholly foreign owned enterprise | PRC | US\$7,600,000 | - | - | 100% | 100% | Research and development; sales |
| 南寧富泰宏精密工業有限公司 (Nanning Futaihong Precision Industrial Co., Ltd.*) | Sino-foreign jointly owned enterprise | PRC | US\$50,000,000 | - | - | 100% | 100% | Manufacture of handsets and communication products |
| 衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd.*) | Limited company | PRC | RMB50,000,000 | - | - | 100% | 100% | Manufacturing, import and export |
| FIH Technology Korea Ltd. | Limited company | Korea | KRW1,100,000,000 | - | - | 100% | 100% | Research and development; project management |
| KSB International Limited | Limited company | Korea | KRW50,000,000 | - | - | 100% | 100% | Provision of logistics services to group companies; sales |

* for identification purposes only

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2015 US\$'000 | 2014 US\$'000 |
|-------------------------------|------------------|------------------|
| ASSETS | | |
| Investments in subsidiaries | 1,482,697 | 1,482,697 |
| Other receivables | 743 | 46 |
| Prepayments | 131 | 82 |
| Amounts due from subsidiaries | 1,321,982 | 1,785,194 |
| Bank balances and cash | 198,734 | 4,149 |
| | 3,004,287 | 3,272,168 |
| LIABILITIES | | |
| Bank borrowings | – | 132,000 |
| Other payables | 1,154 | 1,594 |
| Amounts due to subsidiaries | 693,551 | 870,371 |
| | 694,705 | 1,003,965 |
| NET ASSETS | 2,309,582 | 2,268,203 |
| CAPITAL AND RESERVES | | |
| Share capital | 315,748 | 311,579 |
| Share premium | 1,139,789 | 1,090,444 |
| Reserves | 854,045 | 866,180 |
| TOTAL EQUITY | 2,309,582 | 2,268,203 |

Under the Companies Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to approximately US\$2,029,169,000 (2014: US\$1,970,789,000), consisted of share premium of approximately US\$1,139,789,000 (2014: US\$1,090,444,000) and retained profits of approximately US\$889,380,000 (2014: US\$880,345,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in reserves

| | Share premium US\$'000 | Share compensation reserve US\$'000 | Retained profits US\$'000 | Total US\$'000 |
|---|------------------------------|--|---------------------------------|-------------------|
| Balance at 1 January 2014 | 985,478 | 1,296 | 871,490 | 1,858,264 |
| Loss for the year | – | – | (62) | (62) |
| Issue of ordinary shares under Former Option Scheme and Existing Share Scheme | 104,966 | (77,627) | – | 27,339 |
| Payment made for equity-settled share-based payments | – | (5,810) | – | (5,810) |
| Recognition of equity-settled share-based payments | – | 76,893 | – | 76,893 |
| Transfer | – | (8,917) | 8,917 | – |
| Balance at 31 December 2014 | 1,090,444 | (14,165) | 880,345 | 1,956,624 |
| Profit for the year | – | – | 201,394 | 201,394 |
| Issue of ordinary shares under Existing Share Scheme | 49,345 | (53,514) | – | (4,169) |
| Payment made for equity-settled share-based payments | – | (5,389) | – | (5,389) |
| Recognition of equity-settled share-based payments | – | 37,733 | – | 37,733 |
| Dividends recognised as distribution | – | – | (192,359) | (192,359) |
| Balance at 31 December 2015 | 1,139,789 | (35,335) | 889,380 | 1,993,834 |

The Company's statement of financial position was approved and authorised for issue by the board of directors on 15 March 2016:

TONG WEN-HSIN
DIRECTOR

CHIH YU YANG
DIRECTOR

FINANCIAL SUMMARY

| | For the year ended 31 December | | | | |
|--|--------------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2011 (US\$'million) | 2012 (US\$'million) | 2013 (US\$'million) | 2014 (US\$'million) | 2015 (US\$'million) |
| Results | | | | | |
| Revenue | 6,354.42 | 5,239.80 | 4,996.95 | 6,829.89 | 7,450.99 |
| Profit (loss) from operations | 68.23 | (318.99) | 107.06 | 278.59 | 295.94 |
| Interest expenses | (11.53) | (11.44) | (6.12) | (10.44) | (5.78) |
| Gain on disposals of subsidiaries | 73.30 | – | – | – | – |
| Profit (loss) before tax | 130.00 | (330.43) | 100.94 | 268.15 | 290.16 |
| Income tax (expense) credit | (54.87) | 14.37 | (23.66) | (98.84) | (61.50) |
| Profit (loss) after tax and before non-controlling interests | 75.13 | (316.06) | 77.28 | 169.31 | 228.66 |
| Non-controlling interests | (2.29) | (0.36) | 0.43 | 0.13 | 0.41 |
| Net profit (loss) for the year | 72.84 | (316.42) | 77.71 | 169.44 | 229.07 |

| | As at 31 December | | | | |
|-------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2011 (US\$'million) | 2012 (US\$'million) | 2013 (US\$'million) | 2014 (US\$'million) | 2015 (US\$'million) |
| Assets and liabilities | | | | | |
| Total assets | 5,611.62 | 5,088.48 | 5,585.77 | 6,822.52 | 5,805.01 |
| Total liabilities | (1,852.93) | (1,561.92) | (1,877.28) | (2,892.65) | (2,049.60) |
| Non-controlling interests | (18.68) | (10.76) | (9.82) | (9.15) | (8.47) |
| Capital and reserves | 3,740.01 | 3,515.80 | 3,698.67 | 3,920.72 | 3,746.94 |

CORPORATE GOVERNANCE REPORT

The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2015 to 31 December 2015.

The Company has adopted the Corporate Governance Compliance Manual (the “Manual”) since 15 April 2010, as amended and supplemented from time to time. The purpose of the Manual is to set out the corporate governance practices from time to time adopted by the Company and the compliance procedures that apply in specific areas, with the aim to providing an overview of the requirements of the CG Code and the related rules set out in the Listing Rules and setting out certain guidelines for the implementation of corporate governance measures of the Company.

As an enhancement of the Company’s corporate governance practices and for the purpose of complying with the amendments to the CG Code regarding risk management and internal controls (the “Risk Management and Internal Control Amendments”, which are applicable to accounting periods beginning on or after 1 January 2016), in particular, the Board adopted on 15 December 2015 the revised terms of reference for the Company’s audit committee and the revised procedures for the handling and dissemination of inside information and handling enquiries from the Stock Exchange (which procedures form part of the Manual). Please also see “Accountability and Audit” below for more details.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group’s overall businesses, strategic decisions and performance.

According to the Manual, the respective responsibilities, accountabilities and contributions of the Board and the Company’s management have been divided through the adoption of a list of matters reserved for the Board (which has been reviewed by the Board annually to ensure that the list would remain appropriate to the needs of the Company), as opposed to other matters which could be delegated to the management from time to time. The list of matters reserved for the Board covers (among other things) the Group’s strategy, objectives, business plans, budgets and overall management; changes in capital structure or corporate structure; approval of dividend policy and declaration of interim and final dividends, as appropriate; major investments; and approval of internal policies, codes and guidelines.

The Board has delegated its powers to the management for the daily management and operations of the Group. In addition, the Board has delegated its powers to the Board committees. The Board has four Board committees, namely the remuneration committee, the audit committee, the nomination committee and the corporate governance committee, each of which discharges its functions and duties in accordance with the respective terms of reference with reference to the relevant provisions under the CG Code.

The Board currently consists of three executive directors, one non-executive director and three independent non-executive directors.

Executive Directors

TONG Wen-hsin (*Chairman*)

CHIH Yu Yang (*Chief Executive Officer and chairman of the corporate governance committee*)

LEE Jer Sheng (*member of the corporate governance committee*)

Non-executive Director

LEE Kuo Yu (*member of the remuneration committee, audit committee and nomination committee respectively*)

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

LAU Siu Ki (*chairman of the remuneration committee, audit committee and nomination committee respectively*)

Daniel Joseph MEHAN (*member of the remuneration committee, audit committee and nomination committee respectively*)

CHEN Fung Ming

The respective biographical details (including, without limitation, gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge) of each director are set out in "Profile of Directors and Senior Management" above.

During the year, five Board meetings were held and the attendance of each director is shown below:

| Name of director | Number of Board meetings attended/held in 2015 |
|--|--|
| TONG Wen-hsin | 5/5 |
| CHIH Yu Yang | 5/5 |
| LEE Jer Sheng | 4/5 |
| LEE Kuo Yu | 3/5 |
| LAU Siu Ki | 5/5 |
| Daniel Joseph MEHAN | 5/5 |
| CHEN Fung Ming | 5/5 |
| TONG Wen-hsin as proxy for LEE Jer Sheng | 1/5 |
| LAU Siu Ki as proxy for LEE Kuo Yu | 2/5 |

The Board meets regularly and Board meetings are held at least four times a year. At least fourteen days' notice (in relation to each regular Board meeting) or a reasonable notice (in relation to any other ad-hoc Board meeting) is given to all directors and they can include matters for discussion in the agenda. An agenda and accompanying Board papers are sent to all directors at least three days before the intended date of a Board meeting. Every Board member is entitled to have access to Board papers and related materials and access to the advice and services of the company secretary. They can also seek independent professional advice in appropriate circumstances, at the Company's expense. If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical Board meeting. The minutes books are kept by the company secretary. Draft and final versions of minutes of the Board meetings were sent to all directors for their comments and records respectively within a reasonable time after the meetings.

CHAIRMAN

The Chairman is responsible for providing leadership to the Board and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at the Board meetings. He should take the primary responsibility for ensuring that good corporate governance practices and procedures are established and appropriate steps are taken to provide effective shareholders' communication with the Board. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the non-executive directors. During the year, the Chairman held a meeting with the independent non-executive directors (one being proxy for Dr. LEE Kuo Yu as non-executive director) and another meeting with Dr. LEE Kuo Yu, without the presence of the executive directors.

CORPORATE GOVERNANCE REPORT

APPOINTMENT, RE-ELECTION AND RETIREMENT OF DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors for a term of three years commencing from 30 May 2013, 24 July 2013, 1 December 2013 and 1 November 2014 respectively subject to re-election at each annual general meeting of the Company in accordance with article 112 of the Articles. All the directors of the Company are subject to retirement by rotation at least once every three years in accordance with article 112.

The current term of appointment of Dr. Daniel Joseph MEHAN with the Company as an independent non-executive director will end on 23 July 2016, and if he were to continue with his appointment, he would be serving on the Board for more than nine years from 24 July 2016. According to the code provision contained in paragraph A.4.3 of the CG Code, the proposed re-appointment of Dr. Mehan as an independent non-executive director should be subject to a separate resolution to be approved by the shareholders of the Company. Accordingly, an ordinary resolution will be proposed at the Company's forthcoming annual general meeting to approve such proposed re-appointment.

The current term of appointment of Mr. LAU Siu Ki with the Company as an independent non-executive director will end on 30 November 2016, and if he were to continue with his appointment, he was serving on the Board for more than nine years. According to the code provision contained in paragraph A.4.3 of the CG Code, the proposed re-appointment of Mr. Lau as an independent non-executive director should be subject to a separate resolution to be approved by the shareholders of the Company. Accordingly, an ordinary resolution will be proposed at the Company's forthcoming annual general meeting to approve such proposed re-appointment.

Details regarding such proposed re-appointments are set out in the Company's circular dated 15 April 2016.

DIRECTORS' AND COMPANY SECRETARY'S CONTINUOUS PROFESSIONAL DEVELOPMENT

Prior to appointment, every intending director of the Company is provided with a briefing and training provided by the Company's professional legal advisers to ensure that he/she is fully aware of the responsibilities as a director of a Hong Kong-listed company under the Listing Rules and other applicable legal and regulatory requirements. Such briefings and training are provided at the Company's expenses.

The Company from time to time provides briefings, training sessions and materials to the directors to develop and refresh their knowledge and skills, including updates on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements to enhance their awareness of the same.

During the year, all directors had participated in appropriate continuous professional development activities through attending briefings and/or training sessions and/or reading materials relating to the Group's business operations, general economy and business, manufacturing or technology industry, directors' duties and responsibilities, applicable legal and regulatory requirements, etc.

CORPORATE GOVERNANCE REPORT

| Name of director | Type(s) of continuous professional development activities |
|---------------------|---|
| TONG Wen-hsin | A, B |
| CHIH Yu Yang | A, B |
| LEE Jer Sheng | A, B |
| LEE Kuo Yu | A, B |
| LAU Siu Ki | A, B |
| Daniel Joseph MEHAN | A, B |
| CHEN Fung Ming | A, B |

A: Attending briefings and/or training sessions

B: Reading articles, journals, newspapers and/or other materials

The company secretary had taken not less than 15 hours of relevant professional training during the year.

REMUNERATION COMMITTEE

The Company has established and maintained a remuneration committee with written terms of reference by reference to the code provisions of the CG Code. The terms of reference for the remuneration committee are accessible on the websites of the Stock Exchange and the Company respectively.

The remuneration committee consists of one non-executive director and two independent non-executive directors. The members are:

LAU Siu Ki (*chairman*)

LEE Kuo Yu

Daniel Joseph MEHAN

The principal duties of the remuneration committee are to make recommendations to the Board on the policy and structure for the remuneration of the directors and senior management, to consider and review the remuneration of the directors and senior management by reference to corporate goals and objectives, and to make recommendations to the Board on the remuneration packages of the directors and senior management.

CORPORATE GOVERNANCE REPORT

The remuneration committee shall meet at least once a year if necessary. During the year, three remuneration committee meetings were held, in particular, to review the annual expenses allowances to two executive directors, the renewal of the terms of appointment of two executive directors, the updated 2015 share grant proposal under the Existing Share Scheme as well as to make recommendations to the Board on the relevant matters. The attendance of each member of the remuneration committee is shown below:

| Name of committee member | Number of remuneration committee meetings attended/held in 2015 |
|---------------------------------|--|
| LAU Siu Ki | 3/3 |
| LEE Kuo Yu | 3/3 |
| Daniel Joseph MEHAN | 3/3 |

Full minutes of the meetings of the remuneration committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the remuneration committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

Details of the remuneration payable to the directors and senior management of the Company are set out in note 9 to the consolidated financial statements and "Report of the Directors" above, respectively.

AUDIT COMMITTEE

The Company has established and maintained an audit committee with written terms of reference by reference to the code provisions of the CG Code. On 15 December 2015, the terms of reference for the audit committee were superseded in their entirety by the revised terms of reference for the audit committee to reflect the Risk Management and Internal Control Amendments. The revised terms of reference for the audit committee are accessible on the websites of the Stock Exchange and the Company respectively.

The audit committee consists of one non-executive director and two independent non-executive directors. The members are:

LAU Siu Ki (*chairman*)
LEE Kuo Yu
Daniel Joseph MEHAN

The principal duties of the audit committee are to review the Group's financial reporting and accounting policies and practices as well as financial controls, internal control and risk management systems and provide advice and comments to the Board. It also makes recommendations on the appointment, re-appointment and removal of external auditors, and approves the remuneration and terms of engagement of the external auditors. It also reviews and monitors the external auditors' independence and objectivity as well as the effectiveness of the audit process. Please see "Accountability and Audit" below for more details.

CORPORATE GOVERNANCE REPORT

The audit committee shall meet at least twice a year. Also, at least once a year the audit committee shall meet with the external auditors without any members of management of the Company present. During the year, the audit committee held a meeting with the external auditors without the presence of any members of management of the Company. Moreover, three audit committee meetings were held, in particular, to review the unaudited interim financial statements and report and the audited full-year financial statements and report together with the related management representation letters, to review and approve the external auditors' engagement letters, to review and approve the internal audit plan of the Group as well as to make recommendations to the Board on the relevant matters. The attendance of each member of the audit committee is shown below:

| Name of committee member | Number of audit committee meetings attended/held in 2015 |
|---------------------------------|---|
| LAU Siu Ki | 3/3 |
| LEE Kuo Yu | 3/3 |
| Daniel Joseph MEHAN | 3/3 |

Full minutes of the meetings of the audit committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the audit committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

NOMINATION COMMITTEE

The Company has established and maintained a nomination committee with written terms of reference together with the nomination procedures and process and criteria to select and recommend candidates for directorship (the "Nomination Procedures") as well as the board diversity policy by reference to the code provisions of the CG Code. The terms of reference for the nomination committee are accessible on the websites of the Stock Exchange and the Company respectively.

The nomination committee consists of one non-executive director and two independent non-executive directors. The members are:

LAU Siu Ki (*chairman*)
LEE Kuo Yu
Daniel Joseph MEHAN

The principal duties of the nomination committee are to review the structure, size and composition of the Board annually and make recommendations on any proposed changes. It also makes recommendations to the Board on the appointment or re-appointment of the directors and succession planning for the directors, in particular the Chairman of the Board and the chief executive officer of the Company. In addition, it assesses the independence of the independent non-executive directors. It also identifies individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships in accordance with the Nomination Procedures and the board diversity policy.

Moreover, as to the implementation of the board diversity policy, when reviewing the Board's structure and composition and/or Board member appointment or re-appointment, the nomination committee had taken into account a number of factors (with reference to the diversity of perspectives appropriate to the requirements of the Company's business) as measurable objectives (which factors include, without limitation, gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge). The nomination committee will continue to monitor and review the progress towards achieving the said measurable objectives by considering candidates on merits as well as against the said measurable objectives with due regard for the benefits of the appropriate diversity of the Board.

CORPORATE GOVERNANCE REPORT

The nomination committee shall meet at least once a year if necessary. During the year, two nomination committee meetings were held, in particular, to consider the re-appointment of two executive directors, to review the structure, size and composition of the Board as well as to make recommendations to the Board on the relevant matters. The attendance of each member of the nomination committee is shown below:

| Name of committee member | Number of nomination committee meetings attended/held in 2015 |
|------------------------------------|--|
| LAU Siu Ki | 2/2 |
| LEE Kuo Yu | 1/2 |
| Daniel Joseph MEHAN | 2/2 |
| LAU Siu Ki as proxy for LEE Kuo Yu | 1/2 |

Full minutes of the meetings of the nomination committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the nomination committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

CORPORATE GOVERNANCE COMMITTEE

The Company has established and maintained a corporate governance committee with written terms of reference by reference to the code provisions of the CG Code.

The corporate governance committee consists of two executive directors. The members are:

CHIH Yu Yang (*chairman*)
LEE Jer Sheng

The principal duties of the corporate governance committee are to develop and review the Company's policies and practices on corporate governance and to make recommendations to the Board. It also reviews and monitors the training and continuous professional development of the directors and senior management. In addition, it reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements. Moreover, it develops, reviews and monitors the code of conduct and compliance manual applicable to employees and the directors, and to review the Company's compliance with the CG Code.

The corporate governance committee shall meet at least once a year if necessary. During the year, a corporate governance committee meeting was held to review and recommend to the Board the revised procedures for the handling and dissemination of inside information and handling enquiries from the Stock Exchange (forming part of the Manual), the current list of matters reserved for the Board and the existing shareholders communication policy. The attendance of each member of the corporate governance committee is shown below:

| Name of committee member | Number of corporate governance committee meeting attended/held in 2015 |
|--|---|
| CHIH Yu Yang | 1/1 |
| TONG Wen-hsin as proxy for LEE Jer Sheng | 1/1 |

CORPORATE GOVERNANCE REPORT

Full minutes of the meeting of the corporate governance committee is kept by the company secretary. Draft and final versions of minutes of the meeting of the corporate governance committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

AUDITOR'S REMUNERATION

The responsibility of the auditor is to form an independent opinion, based on its audit, on those consolidated financial statements and to report its opinion solely to the Company, as a body, and for no other purpose.

During the year, the auditor's remuneration incurred by the Company was US\$912,000, and US\$1,162,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services and US\$111,000 for non-audit services. The Company considers the non-audit services to be insignificant and has therefore not provided itemised details regarding the nature of each non-audit service and the fee paid therefor.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Group and ensuring that the consolidated financial statements are in accordance with applicable statutory requirements and accounting standards.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the preparation of consolidated financial statements for each financial period, which give a true and fair view of the financial position and operating results of the Group. In preparing the consolidated financial statements for the year ended 31 December 2015, the directors have selected suitable accounting policies and have applied them in a consistent manner, have made reasonable judgments and estimates, and have prepared the consolidated financial statements on a going-concern basis.

The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's business and strategic objectives, ensuring that an appropriate and effective system of internal controls and enterprise risk management is established and maintained within the Group and overseeing the Group's management (comprising, in the context of the Group's enterprise risk management and internal controls, the Company's chairman, chief executive officer and chief financial officer, and the Group's business head of Lang Fang factory and site head of the United States, who collectively as a body is principally responsible for the Group's overall policies on enterprise risk management and internal controls (the "Management")) in the design, implementation and monitoring of the internal control and enterprise risk management system on an ongoing basis so that the business and strategic objectives of the Group can be achieved and risks associated can be identified, managed and mitigated, but not eliminated, at an acceptable level. The internal control and enterprise risk management system, which includes defined management structure with specific limits of authority and control responsibilities, is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and on the effectiveness and adequacy of operations, reliability of financial reporting, safeguarding of assets and compliance with applicable laws and regulations.

The Board regularly reviews the design and operational adequacy and effectiveness of the internal control and enterprise risk management system through the audit committee.

CORPORATE GOVERNANCE REPORT

The audit committee in discharging its responsibility of evaluating the effectiveness and adequacy of the Group's system of internal controls and enterprise risk management, as delegated by the Board, reviews the internal audit function. Pursuant to a risk-based approach, the Group's internal audit function independently reviews the risks associated with and internal controls of the Group over various operations and activities, and evaluates their adequacy, effectiveness and compliance. The Group's internal audit function has unrestricted access to all information, books, people and physical properties that allows it to review all aspects of the internal controls, enterprise risk management and governance processes within the Group. This includes audits of financial and operational controls of all legal entities and functional units as well as all other material controls (including financial, operational and compliance controls). The audit committee reviews and approves the internal audit plan which is prepared by the Group's internal audit function every year based on an assessment of the risk in each operating unit as well as its materiality in a Group context. During its annual review, the audit committee also considers, in particular, (a) the adequacy of resources, qualifications and experiences of the accounting and audit staff, and their training programs and budget; (b) the changes, since the last review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment; (c) the scope and quality of the Management's ongoing monitoring of risks and of the internal control and enterprise risk management system, and the work of the Group's internal audit function; (d) the extent and frequency of communication of monitoring results to the audit committee which enables it to assess control of the Group and the effectiveness of risk management; (e) significant control failings or weaknesses that have been identified during the period under review and also the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and (f) the effectiveness of the Group's processes for financial reporting and compliance with the Listing Rules. Deficiencies identified are communicated to the Management after each internal audit. The Management is responsible for rectifying the deficiencies identified by these internal audits with corrective actions. Corrective actions are closely monitored by the Management and the Group's internal audit function. A summary of major findings is reported semi-annually to the executive directors and the audit committee. Being a learning organisation, lessons learned and best practices are disseminated and promoted within the Group.

The Code of Conduct guiding individual behaviour within the Group is made available to employees by way of rules and principles. To supplement the above, a whistleblowing policy is in place to allow employees to report, without the fear of recrimination, any ethical misconduct, impropriety, or fraud cases within the Group to the chief internal auditor who will carry out independent investigation into each reported case or refer to other relevant parties for further actions, as appropriate.

Risk management is a central part of the Group's strategic management, and is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives. The Group's risk management function marshals the understanding of the potential upside and downside of all those factors which can affect the organisation by establishing an enterprise risk management system to proactively identify, analyse, control and manage all types of risks associated with its business and operations. The enterprise risk management system is operated and monitored by the Group's enterprise risk management team (the "ERM Team") consisting of the Company's heads of human resources, supply chain services, manufacturing and corporate engineering and product liability as well as leaders from quality and reliability, finance, legal, information technology, environment and health and safety departments, collectively as a body representing key functions of the Group for execution of the enterprise risk management process. Risk assessments and reports will be reported to the ERM Team on a regular basis which will then review the risk reports and assess the adequacy of action plans and devise appropriate business process or control systems to manage these risks. The ERM Team will report to the Management. The Company's chief financial officer will represent the Management to report the operational adequacy and effectiveness of the internal control and enterprise risk management system to the audit committee.

CORPORATE GOVERNANCE REPORT

The enterprise risk management system covers strategic planning, technical, budgetary control, performance measurement, control over capital expenditure, investment, finance, quality, product safety and liability, legal, information technology and security, supply chain management, natural disaster, human resources management, customer credit risk and relationship, and industrial safety.

The Group also adopts internal control procedures to ensure that the continuing connected transactions of the Group have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms (or better) and according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole. The accounting department of the Company is primarily responsible to review and monitor the continuing connected transactions ensuring that the annual caps of the relevant continuing connected transactions are not exceeded and the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The accounting department of the Company will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and annually report to the chief financial officer of the Company, who (in his own capacity and on behalf of the Management) will report to the audit committee and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the Listing Rules have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly.

The Company's chief financial officer (in his own capacity and on behalf of the Management), after reviewing and discussing with the Group's internal audit function the Group's internal control and enterprise risk management system as well as the related reports and disclosures made by the Group's internal audit function for the year ended 31 December 2015, has provided a confirmation to the audit committee on the effectiveness of the system.

Based on the results of evaluations and representations for the year ended 31 December 2015 made by the Company's chief financial officer (in his own capacity and on behalf of the Management) and the Group's internal audit function respectively, the audit committee is satisfied with the effectiveness of the Group's internal audit function and that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives, and an effective and adequate system of internal controls and enterprise risk management has been in place throughout the year ended 31 December 2015 to safeguard the interests of shareholders, customers, creditors and employees.

CORPORATE GOVERNANCE REPORT

As an enhancement of the Company's corporate governance practices and for the purpose of complying with the Risk Management and Internal Control Amendments, in particular, the Board (with the recommendation from the corporate governance committee) adopted on 15 December 2015 (among other things) the revised procedures for the handling and dissemination of inside information and handling enquiries from the Stock Exchange (forming part of the Manual) (the "Procedures"). The Procedures set out the detailed internal control, reporting and authorisation procedures in connection with:

- (a) the handling and dissemination of inside information in compliance with rule 13.09 of the Listing Rules and Part XIVA of the SFO, where recipients of potential inside information (subject to applicable confidentiality obligations and dealing restrictions) will notify the leader of a core team designated by the Board for assessment and (as appropriate) reporting to the chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess any disclosure need in compliance with rule 13.09 of the Listing Rules and Part XIVA of the SFO in respect of the potential inside information.
- (b) the handling of enquiries from the Stock Exchange, who may make enquiries with the Company (primarily its company secretary being a member of the designated core team) on unusual movements in the price or trading volume of the Company's shares under rule 13.10 of the Listing Rules or media news, and such enquiries will be handled through such core team and (as appropriate) the chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess proper disclosure.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the year ended 31 December 2015.

SHAREHOLDER RELATIONS

The Company has formulated and maintained the shareholders communication policy setting out the framework that the Company has put in place to maintain and promote effective communication and ongoing dialogue with its shareholders so as to enable them to engage actively with the Company through different means of communication and exercise their rights in the capacity as shareholders in an informed manner. To this end, the Company strives to ensure that all its shareholders have ready and timely access to all publicly available information relating to the Company.

CORPORATE GOVERNANCE REPORT

The shareholders communication policy provides for (among other things) the procedures by which enquiries may be put forward to the Company as follows:

- The Company's shareholders may at any time send enquiries (including enquiries to the Board) and requests for publicly available information and provide comments and suggestions to the Company. Such enquiries, requests, comments and suggestions can be sent through "Contact FIH" at the Company's website (www.fihmb.com) or to the company secretary at the following address:

The Company Secretary of FIH Mobile Limited
c/o Shenzhen Futaihong Precision Industrial Co., Ltd.
No. 2, 2nd Donghuan Road
Longhua Street, Baoan
Shenzhen City
Guangdong Province
518109
People's Republic of China

- For enquiries about their shareholdings in the Company, the shareholders can direct the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or by email to hkinfo@computershare.com.hk, who has been appointed by the Company to handle the shareholders' share registration and related matters.
- For the verification of his/her capacity as a shareholder, the shareholder making the enquiry, request, comment or suggestion shall forthwith upon the Company's request provide: (a) his/her name, address and other contact details; (b) the number of the Company's shares held by him/her; (c) his/her written consent to the use, transfer and/or processing of his/her personal data and other information provided to the Company for the purpose of verifying his/her capacity as a shareholder; and (d) such additional information as the Company may reasonably require for the purposes of such verification. The verification process will be conducted by the Company, in consultation with the Company's Hong Kong branch share registrar and other third parties if necessary, to the satisfaction of the Company. The Company will proceed to handle the relevant enquiry, request, comment or suggestion following a successful verification to its satisfaction.
- Following a successful verification of the shareholder's capacity, the company secretary or the handling officer of the Company's investor relations department (as the case may be) will review the relevant enquiry, request, comment or suggestion and (as appropriate) forward the same: (a) to the Board (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within the Board's purview; (b) to the members of the relevant Board committee (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within such Board committee's area of responsibility; and (c) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

The shareholders communication policy also provides (among other things) that the annual general meetings and other general meetings of the Company are the primary forum for communication with the shareholders and for the shareholders' exchange of views and participation in discussions with the Board.

CORPORATE GOVERNANCE REPORT

During the year, an annual general meeting (the "2015 AGM") of the Company was held on 28 May 2015. The attendance of each director is shown below (*Note*):

| Name of director | Number of general meeting attended/held in 2015 |
|---------------------|---|
| TONG Wen-hsin | 1/1 |
| CHIH Yu Yang | 1/1 |
| LEE Jer Sheng | 1/1 |
| LEE Kuo Yu | 1/1 |
| LAU Siu Ki | 1/1 |
| Daniel Joseph MEHAN | 1/1 |
| CHEN Fung Ming | 1/1 |

Note: The directors participated in the 2015 AGM by means of telephone conference facility, except that Messrs. TONG Wen-hsin and LAU Siu Ki attended the 2015 AGM in person.

At the 2015 AGM, the Company obtained its shareholders' approval of the agenda items set forth in the 2015 AGM notice attached to the Company's circular dated 10 April 2015.

SHAREHOLDERS' RIGHTS

Shareholders' Right to convene Extraordinary General Meeting

The Company has formulated and maintained the memorandum on shareholder rights setting out (among other things) its shareholders' right to convene the Company's extraordinary general meeting ("EGM") as follows:

- Pursuant to article 68 of the Articles, the relevant shareholder(s) of the Company is/are entitled to convene an EGM in the following manner:
 - (a) Upon the written requisition of any two or more shareholders deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company; or
 - (b) Upon the written requisition of any one shareholder who is a recognised clearing house (as defined in the Articles) or its nominee(s) deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.
- If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the requisitionist(s) himself/themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM in the same manner, as nearly as possible, as that in which EGMs may be convened by the Board, provided that any EGM so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

CORPORATE GOVERNANCE REPORT

Procedures for Shareholders' Enquiries

The Company has formulated and maintained the shareholders communication policy setting out (among other things) the procedures by which enquiries may be put to the Board as more particularly described above.

Shareholders' Right to put forward Proposals at General Meetings

The Company has formulated and maintained the procedures for shareholders to propose candidates for election as a director of the Company, which is accessible on the website of the Company. In relation to other proposals which may be put forward at the Company's general meetings, the Company has formulated and maintained the memorandum on shareholder rights which provides for (among other things) the following:

- In the absence of any general mechanism for the shareholders to put forward other proposals at the Company's general meetings under the Cayman Islands Companies Law, the shareholder(s) can submit a written requisition to move a proper resolution at a general meeting of the Company if such shareholder(s): (a) individually or collectively represent(s) not less than one-fortieth of the total voting rights of all the shareholders having as at the date of the requisition a right to vote at the Company's general meetings; or (b) are no less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK\$2,000 (or its foreign equivalent).
- The written requisition shall (a) state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the relevant general meeting; (b) contain the signature(s) of all the requisitionist(s), which may be contained in one document or in several documents in like form; (c) be deposited with the company secretary at the following address not less than 6 weeks before the relevant general meeting (in the case of a requisition requiring notice of a resolution) or not less than 1 week before such general meeting (in the case of any other requisition); and (d) be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionist(s) to all the shareholders in accordance with the requirements under applicable laws and regulations:

The Company Secretary of FIH Mobile Limited
c/o Shenzhen Futaihong Precision Industrial Co., Ltd.
No. 2, 2nd Donghuan Road
Longhua Street, Baoan
Shenzhen City
Guangdong Province
518109
People's Republic of China