FIH® 富智康™

FIH Mobile Limited
富智康集團有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2038)

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2017 together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

		2017	2016
	NOTES	***US$'000***	*US$'000*
Revenue	*2*	**12,080,110**	6,233,084
Cost of sales		**(11,949,780)**	(5,891,535)
Gross profit		**130,330**	341,549
Other income, gains and losses	*3*	**217,250**	237,080
Impairment loss recognised for available-for-sale investments		**(202,503)**	(19,094)
Selling expenses		**(84,318)**	(20,489)
General and administrative expenses		**(374,548)**	(201,100)
Research and development expenses		**(160,829)**	(117,259)
Interest expense on bank borrowings		**(11,232)**	(936)
Share of loss of associates		**(8,694)**	(1,687)
Share of loss of joint ventures		**(1,014)**	(1,153)
(Loss) profit before tax	*4*	**(495,558)**	216,911
Income tax expense	*5*	**(29,836)**	(80,700)
(Loss) profit for the year		**(525,394)**	136,211

	NOTE	**2017** *US$'000*	2016 *US$'000*
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		**(104)**	495
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**173,055**	(193,681)
Fair value gain on available-for-sale investments		**53,234**	48,729
Share of translation reserve of associates		**9,646**	(2,206)
Share of translation reserve of joint ventures		**267**	30
Release upon partial disposal of available-for-sale investments		**(14,279)**	–
		221,923	(147,128)
Other comprehensive income (expense) for the year, net of income tax		**221,819**	(146,633)
Total comprehensive expense for the year		**(303,575)**	(10,422)
(Loss) profit for the year attributable to:			
Owners of the Company		**(525,487)**	138,321
Non-controlling interests		**93**	(2,110)
		(525,394)	136,211
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(304,062)**	(8,245)
Non-controlling interests		**487**	(2,177)
		(303,575)	(10,422)
(Loss) earnings per share	*7*		
Basic		**(US6.61 cents)**	US1.77 cents
Diluted		**N/A**	US1.75 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	**2017** **US$'000**	2016 US$'000 (restated)
Non-current assets			
Property, plant and equipment		**974,236**	905,071
Investment properties		**6,149**	6,273
Prepaid lease payments		**51,625**	50,172
Goodwill	*8*	**79,435**	79,435
Intangible assets		**10,158**	19,000
Available-for-sale investments	*9*	**190,187**	354,181
Interests in associates	*10*	**100,348**	72,379
Interests in joint ventures		**2,799**	3,546
Deferred tax assets	*11*	**43,932**	32,426
Deposit for acquisition of prepaid lease payments		**29,177**	27,499
Convertible notes	*12*	**60,000**	60,000
		1,548,046	1,609,982
Current assets			
Inventories		**1,024,611**	375,336
Trade and other receivables	*13*	**3,776,603**	2,495,148
Short-term investments	*14*	**426,554**	929,627
Convertible notes	*12*	**–**	20,940
Bank deposits		**31,964**	158,075
Bank balances and cash		**1,979,905**	1,373,550
		7,239,637	5,352,676
Current liabilities			
Trade and other payables	*15*	**4,644,463**	2,769,912
Bank borrowings	*16*	**712,600**	418,596
Provision	*17*	**96,896**	21,172
Tax payable		**125,036**	154,565
		5,578,995	3,364,245
Net current assets		**1,660,642**	1,988,431
Total assets less current liabilities		**3,208,688**	3,598,413

	NOTES	2017 US$'000	2016 US$'000 (restated)
Capital and reserves			
Share capital		**323,739**	319,410
Reserves		**2,849,370**	3,245,223
Equity attributable to owners of the Company		**3,173,109**	3,564,633
Non-controlling interests		**6,610**	6,123
Total equity		**3,179,719**	3,570,756
Non-current liabilities			
Deferred tax liabilities	*11*	**5,362**	3,790
Deferred income	*18*	**23,607**	23,867
		28,969	27,657
		3,208,688	3,598,413

NOTES:

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

Amendments to IFRSs that are mandatorily effective for the current year

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

Amendments to IAS 7	Disclosure initiative
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to IFRS 12	As part of the annual improvements to IFRSs 2014-2016 cycle

Except as described below, 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.

Amendments to IAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note to the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note to the consolidated financial statements, the application of these amendments has had no impact on the Group's consolidated financial statements.

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 15	Revenue from contracts with customers and the related amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance contracts[3]
IFRIC 22	Foreign currency transactions and advance consideration[1]
IFRIC 23	Uncertainty over income tax treatments[2]
Amendments to IFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to IFRS 4	Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"[1]
Amendments to IFRS 9	Prepayment features with negative compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]
Amendments to IAS 19	Plan amendment, curtailment or settlement[2]
Amendments to IAS 28	Long-term interests in associates and joint ventures[2]
Amendments to IAS 28	As part of the annual improvements to IFRS Standards 2014-2016 cycle[1]
Amendments to IAS 40	Transfers of investment property[1]
Amendments to IFRSs	Annual improvements to IFRS Standards 2015-2017 cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after 1 January 2021.
[4] Effective for annual periods beginning on or after a date to be determined.

IFRS 9 "Financial instruments"

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of IFRS 9 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at 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.

- 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 "Financial instruments: Recognition and measurement" (the "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.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement:

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in note 9: certain securities for strategic investment purpose are qualified for designation as measured at FVTOCI under IFRS 9, however, the fair value gains or losses accumulated in the revaluation reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income. The Group plans not to elect the option for the designation for the remaining securities amounting to US$107,273,000 not for strategic investment purpose and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, revaluation reserve related to these available-for-sale investments will be transferred to retained profits at 1 January 2018;

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 9: certain securities amounting to US$70,134,000 for strategic investment purpose are qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the revaluation reserve. Upon initial application of IFRS 9, the fair value gain relating to these securities would be adjusted to revaluation reserve as at 1 January 2018. The Group plans not to elect the option for designating for the remaining securities to be measured at FVTOCI and will measure these securities not for strategic investment purpose at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, fair value gains related to these securities, representing the differences between cost less impairment and fair value would be adjusted to retained profits as at 1 January 2018;

- At 1 January 2018, the Group also revoked the designation of measurement of convertible notes and short-term investments measured at FVTPL as these financial assets are required to be measured at FVTPL under IFRS 9;

- Except for financial assets which are subject to expected credit loss model under IFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as required under IFRS 9. Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on financial assets which will be measured at amortised cost upon application of IFRS 9. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

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.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company have assessed the impact on application of IFRS 15 and have identified the following areas that will be affected:

Timing of revenue recognition

Currently under IAS 18, the Group recognises revenue from sales of goods when the goods are delivered and titles have been passed to the customer and the significant risks and rewards of ownership of the goods have been transferred to the customer. Under IFRS 15, the Group has assessed whether the revenue will be recognised overtime or at a point in time for those manufactured products with no alternative use to the Group. The directors of the Company consider that there is no significant impact as at 1 January 2018 since the production cycle of its products is short.

In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The directors of the Company intend to apply the limited retrospective method with cumulative effect of initial application recognised in the opening balance of equity at 1 January 2018.

IFRS 16 "Leases"

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately US$5,410,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of US$319,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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.

2. 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 and distribution income amounting to US$11,873,364,000 and US$206,746,000 (2016: manufacturing amounting to US$6,233,084,000), respectively, 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:

	2017	2016
	US$'000	*US$'000*
Segment revenue (external sales)		
Asia	**10,241,720**	5,800,947
Europe	**1,647,937**	177,721
America	**190,453**	254,416
Total	**12,080,110**	6,233,084
Segment profit (loss)		
Asia	**237,043**	368,489
Europe	**(161,653)**	1,126
America	**27,621**	9,369
	103,011	378,984
Other income, gains and losses	**160,251**	179,156
Impairment loss recognised for available-for-sale investments	**(202,503)**	(19,094)
General and administrative expenses	**(374,548)**	(201,100)
Research and development expenses	**(160,829)**	(117,259)
Interest expense on bank borrowings	**(11,232)**	(936)
Share of loss of associates	**(8,694)**	(1,687)
Share of loss of joint ventures	**(1,014)**	(1,153)
(Loss) profit before tax	**(495,558)**	216,911

Segment profit (loss) represents the gross profit earned (loss incurred) 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.

Segment assets and liabilities

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

	2017	2016
	US$'000	*US$'000*
ASSETS		
Segment assets		
Allocated		
Asia	**2,918,923**	2,113,805
Europe	**1,051,615**	138,651
America	**315,563**	323,707
Total	**4,286,101**	2,576,163
Unallocated		
Property, plant and equipment	**923,906**	884,936
Inventories	**980,731**	362,711
Cash and bank deposits	**1,332,614**	1,200,976
Others	**774,894**	1,267,113
Corporate assets	**489,437**	670,759
Consolidated total assets	**8,787,683**	6,962,658
LIABILITIES		
Segment liabilities		
Allocated		
Europe	**377,593**	556
America	**49,519**	65,082
Total	**427,112**	65,638
Unallocated		
Trade and other payables	**4,294,685**	2,701,418
Others	**42,784**	44,761
Corporate liabilities	**843,383**	580,085
Consolidated total liabilities	**5,607,964**	3,391,902

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.

3. OTHER INCOME, GAINS AND LOSSES

	2017	2016
	US$'000	*US$'000*
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank deposits and bank balances	**38,665**	32,322
Service income	**56,999**	57,924
Sales of materials and scraps	**13,641**	24,301
Repairs and modifications of mouldings	**16,658**	13,354
Distribution income	**–**	3,573
Net foreign exchange gain	**19,515**	46,975
Government subsidies *(note)*	**49,563**	27,397
Rental income	**16,586**	15,686
Loss on disposal and write-off of property, plant and equipment	**(29,054)**	(20,808)
Gain from changes in fair value of financial assets designated as FVTPL	**19,209**	36,555
Gain (loss) on deemed disposal of interests in associates	**865**	(180)
Gain on disposal of prepaid lease payments	**–**	618
Impairment loss recognised for property, plant and equipment	**–**	(401)
Gain on disposal of available-for-sale investments	**15,468**	–
Others	**(865)**	(236)
	217,250	237,080

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

4. (LOSS) PROFIT BEFORE TAX

	2017	2016
	US$'000	*US$'000*
(Loss) profit before tax has been arrived at after charging:		
Amortisation of intangible assets	**9,500**	–
Amortisation of prepaid lease payments (included in general and administrative expenses)	**1,259**	1,089
Depreciation of property, plant and equipment	**159,939**	139,646
Depreciation of investment properties	**644**	643
Total depreciation and amortisation	**171,342**	141,378
Staff costs		
Directors' emoluments	**3,200**	5,789
Retirement benefit scheme contributions (excluding directors)	**51,994**	52,590
Other staff costs	**456,819**	300,808
Equity-settled share-based payments	**58,393**	47,856
Total staff costs	**570,406**	407,043
Auditor's remuneration	**1,064**	898
Cost of inventories recognised as expense	**11,793,088**	5,847,977
Impairment loss recognised in respect of trade receivables, net	**117**	727
Provision for warranty	**87,680**	16,159
Write down of inventories to net realisable value	**69,012**	27,399

5. INCOME TAX EXPENSE

	2017	2016
	US$'000	*US$'000*
Current tax		
— Hong Kong	**–**	–
— Other jurisdictions	**25,126**	65,761
— Withholding tax for distributed profit of investments in the PRC	**12,878**	3,008
	38,004	68,769
Underprovision in prior years		
— Hong Kong	**–**	–
— Other jurisdictions	**193**	196
	193	196
	38,197	68,965
Deferred tax		
— Current year	**1,272**	11,735
— Change in tax rate	**(9,633)**	–
	(8,361)	11,735
	29,836	80,700

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

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2016: 25%). Three of the Company's PRC subsidiaries were awarded with the Advanced — Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% for a period of 3 years, i.e. from late 2015 to early 2018, from 2016 to 2018 and from 2017 to 2019, respectively. Except these three subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2016: 25%).

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

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 EIT Law and Article 91 of its Detailed Implementation Rules.

6. DIVIDENDS

	2017	2016
	US$'000	*US$'000*
Dividends recognised as distribution during the year		
2016 final — US$0.00526 (2016: US$0.00869) per share	**42,000**	68,599
Special — US$0.01252 (2016: US$0.019) per share	**100,000**	150,000
	142,000	218,599

No dividend was declared or proposed for the year ended 31 December 2017, nor has any dividend been proposed since the end of reporting period.

7. (LOSS) EARNINGS PER SHARE

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

	2017	2016
	US$'000	*US$'000*
(Loss) earnings attributable to the owners of the Company		
(Loss) earnings for the purposes of basic (2016: basic and diluted) (loss) earnings per share	**(525,487)**	138,321

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,951,805,213**	7,830,115,393
Effect of dilutive potential ordinary shares relating to outstanding share awards issued by the Company		79,133,195
Weighted average number of ordinary shares for the purpose of diluted earnings per share		7,909,248,588

The computation of diluted loss per share for the year ended 31 December 2017 did not assume the exercise of the Company's share awards as the assumed exercise of the outstanding share awards would result in a decrease in the loss per share.

8. GOODWILL

	US$'000
COST	
At 1 January 2016	–
Arising on acquisition of assets and collaboration arrangement *(note 19)*	79,435
At 31 December 2016 (restated) and 31 December 2017	79,435

Valuation and allocation of goodwill

For the purposes of impairment testing, goodwill has been allocated to the CGU, relating to the Acquisition and Collaboration Transactions as defined in note 19, comprising operation through certain subsidiaries, including the manufacturing of feature phones and smart phones.

During the year ended 31 December 2017, the directors of the Company determines that there is no impairment of the CGU containing goodwill.

The basis of the recoverable amounts of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 17.54% (2016: 13.39%). The valuation of the recoverable amount is based on a valuation carried out by an independent professional valuer not connected with the Group with appropriate qualification. The cash flows beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on management's experience from manufacturing of related feature phones and smart phones and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

9. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	US$'000	*US$'000*
Listed equity investments:		
Equity investment listed in Hong Kong	**87,282**	71,510
Equity investment listed in Taiwan	**29,571**	5,967
	116,853	77,477
Unlisted equity investments *(note a)*	**73,334**	269,590
Investment in a private fund *(note b)*	**–**	7,114
Total of AFS investments analysed for reporting purposes as non-current assets	**190,187**	354,181

Notes:

(a) At 31 December 2017 and 2016, included in the unlisted equity investments, they are equity securities issued by certain private entities, majority of which are incorporated or operated in the PRC, India and Taiwan. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant and the probabilities of the various estimates cannot be reasonably assessed that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

As at 31 December 2017, included in the unlisted equity investments, there is an investment in Hike Global Pte. Ltd. ("Hike"), a private limited company incorporated in Singapore, with a carrying amount of US$49,997,000 (2016: US$49,997,000). Hike is engaged in providing an instant P2P (peer-to-peer) messaging application on the smart phone.

On 18 May 2017, the substantial shareholders of JIP and an independent third party (the "Potential Purchaser") signed a non-binding acquisition offer and exclusivity letter (the "Letter"). JIP is a private limited company incorporated in India engaging in owning and operating the website namely www.snapdeal.com in India. Pursuant to the Letter, the Potential Purchaser shall acquire all shares of JIP at a purchase price based on US$1 billion enterprise value of JIP. The directors of the Company thereafter considered that this had an impact on the estimated future cash flows of the investment in JIP from which a significant decline of the fair value of JIP would be below its cost as mentioned in the Letter. In late August 2017, the Letter was terminated by the Potential Purchaser because of dissent of minority shareholders and complicated tax problems between Singapore and India where JIP and the Potential Purchaser are incorporated. The directors of the Company regard the business of JIP is not satisfied as expected and then reassessed the recoverable amount of the investment in JIP based on a cash flow projection of JIP discounted at 20.87%. Such valuation is based on a valuation carried out by an independent professional valuer not connected with the Group with appropriate qualification. The key assumptions are discount rate, terminal growth rate of 3%, budgeted sales and gross margin taking into account the relevant industry growth forecasts and financial budgets and the Group's management expectation for the market development in India. After making such assessment, an impairment loss of US$200,004,000 (2016: nil) was recognised for the year ended 31 December 2017. The valuation is classified as level 3 under IFRS 13 "Fair value measurement".

An impairment loss of US$2,499,000 (2016: US$19,094,000) was recognised for the other equity investments as the directors of the Group considered that no future cash flow would be generated from such investments which are of no market value.

During the year ended 31 December 2017, certain unlisted equity investments previously held at cost amounted to approximately US$4,998,000 (2016: US$24,000,000) have been listed in Hong Kong (2016: Hong Kong), for which the fair value becomes reliably determinable. As a result, these equity investments were reclassified into AFS investments at fair value of approximately US$11,355,000 (2016: US$71,510,000) and a fair value gain of US$6,357,000 (2016: US$47,510,000) was recognised in other comprehensive income upon reclassification.

(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. As at 31 December 2017, the private fund was fully redeemed and realised a loss upon disposal of approximately US$717,000.

10. INTERESTS IN ASSOCIATES

	2017 US$'000	2016 US$'000
Cost of investments in associates, less impairment		
Unlisted	**101,689**	74,672
Share of post-acquisition loss and other comprehensive expense, net of dividend received	**(1,341)**	(2,293)
	100,348	72,379

At 31 December 2017 and 2016, 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 2017	2016	Proportion of voting power held by the Group 2017	2016	Principal activity
Diabell Co., Ltd.	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
CExchange, LLC	Limited liability company	USA	USA	Class A membership interest	49%	30%	49%	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	Limited company	Cayman Islands	Taiwan	Ordinary	28.44%	28.44%	28.44%	28.44%	Research and development of wearable products
杭州耕德電子有限公司 (also known as Hangzhou Gengde Electronics Co., Ltd.)	Limited company	PRC	PRC	Equity interest	41.18%	41.18%	33.33%	33.33%	Engaging in the business of design, development and manufacturing of electronic devices and handset accessories
Mango International Group Limited ("Mango International")	Limited company	BVI	Hong Kong	Ordinary	15.69%	12.5%	33.33%	33.33%	Engaging in the provision of mobile devices to hotels and related hospitality technology solutions

11. 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$'000	Others US$'000 (Note)	Total US$'000
At 1 January 2016	(7,166)	(3,943)	2,403	(5,503)	(5,822)	(26,901)	(46,932)
Acquisition of assets and collaboration arrangement *(note 19)*	–	–	–	–	–	3,418	3,418
(Credit) charge to profit or loss for the year	(496)	(543)	5,337	4,199	466	2,772	11,735
Exchange adjustments	531	284	(640)	267	352	2,349	3,143
At 31 December 2016 (restated)	**(7,131)**	**(4,202)**	**7,100**	**(1,037)**	**(5,004)**	**(18,362)**	**(28,636)**
(Credit) charge to profit or loss for the year	**(2,939)**	**(11,572)**	**1,594**	**(1,555)**	**2,244**	**13,500**	**1,272**
Effect of change in tax rate	**(2,464)**	**(1,499)**	**2,018**	**–**	**(2,060)**	**(5,628)**	**(9,633)**
Exchange adjustments	**(564)**	**(225)**	**478**	**78**	**(300)**	**(1,040)**	**(1,573)**
At 31 December 2017	**(13,098)**	**(17,498)**	**11,190**	**(2,514)**	**(5,120)**	**(11,530)**	**(38,570)**

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

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:

	2017 ***US$'000***	2016 *US$'000* (restated)
Deferred tax assets	**(43,932)**	(32,426)
Deferred tax liabilities	**5,362**	3,790
	(38,570)	(28,636)

At 31 December 2017, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$71,855,000 (2016: US$98,305,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unused tax losses of approximately US$1,215,147,000 (2016: US$795,936,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$8,379,000 (2016: US$4,149,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$1,206,768,000 (2016: US$791,787,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. The unrecognised tax losses will expire before 2022 (2016: 2021).

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$1,318,638,000 (2016: US$1,272,829,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

12. CONVERTIBLE NOTES

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

During the year ended 31 December 2016, the Group also invested in an unlisted convertible notes with principal amount of US$60,000,000, non-interest bearing with a maturity date of 14 April 2018 (the "Maturity Date"), issued by Mango International (the "CN II"). In exchange for the issuance by Mango International of CN II, the Group shall deliver inventories with an aggregate value of US$60,000,000 to Mango International upon request by Mango International. The Group and Mango International are entitled at any time after the date of issue up to the Maturity Date to request to convert in whole or in part the outstanding principal amount of the convertible notes into ordinary shares of Mango International, provided that such conversion(s) shall not be effected unless Mango International or the Group gives prior written consent. To the extent there is any principal amount of the convertible notes remains outstanding at the Maturity Date, all of outstanding principal amount of the convertible notes shall be automatically converted into ordinary shares of Mango International. At 31 December 2017, the carrying amount of the CN II was US$60,000,000 (2016: US$60,000,000).

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

13. TRADE AND OTHER RECEIVABLES

	2017	2016
	US$'000	*US$'000*
Trade receivables	**3,462,072**	2,227,704
Less: Allowance for doubtful debts	**(903)**	(737)
	3,461,169	2,226,967
Other taxes recoverables	**169,564**	91,576
Other receivables, deposits and prepayments	**145,870**	176,605
Total trade and other receivables	**3,776,603**	2,495,148

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

The following is an aged analysis of trade receivables net of allowance for doubtful debts as presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2017	2016
	US$'000	*US$'000*
0–90 days	**3,404,202**	2,208,489
91–180 days	**41,405**	11,905
181–360 days	**9,776**	2,876
Over 360 days	**5,786**	3,697
	3,461,169	2,226,967

14. SHORT-TERM INVESTMENTS

	2017	2016
	US$'000	*US$'000*
Investments in interest bearing instruments designated as financial assets at FVTPL	**426,554**	929,627

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

15. TRADE AND OTHER PAYABLES

	2017	2016
	US$'000	*US$'000*
Trade payables	**3,693,693**	2,102,671
Accruals and other payables	**931,650**	607,241
Deferred consideration *(note)*	**19,120**	60,000
	4,644,463	2,769,912

Note: The amount represented the aggregate value of the inventories to be delivered by the Group to Mango International as the consideration for CN II, details of which are set out in note 12.

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

	2017	2016
	US$'000	*US$'000*
0–90 days	**3,616,960**	2,046,576
91–180 days	**47,979**	37,968
181–360 days	**19,900**	6,749
Over 360 days	**8,854**	11,378
	3,693,693	2,102,671

16. BANK BORROWINGS

	2017	2016
	US$'000	*US$'000*
Bank loans	**712,600**	418,596

Analysis of bank borrowings by currency:

Renminbi ("RMB")	**–**	24,081
Japanese Yen ("JPY")	**–**	6,015
US$	**712,600**	388,500
	712,600	418,596

The bank borrowings as at 31 December 2017 are unsecured, obtained with original maturity of one to six months (2016: one to six months) and carry interest at fixed interest rate ranging from 1.72% to 2.40% (2016: 0.45% to 8%) per annum. Out of total bank borrowing, bank borrowing of US$90,000,000 (2016: US$34,661,000) contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 2% per annum (2016: 1.83% per annum).

17. PROVISION

	2017	2016
	US$'000	*US$'000*
At 1 January	**21,172**	19,093
Exchange adjustments	**1,022**	(1,194)
Provision for the year	**87,680**	16,159
Utilisation of provision	**(12,978)**	(12,886)
At 31 December	**96,896**	21,172

The warranty provision represents management's best estimate of the Group's liability under twelve to twenty-four months' warranty granted on handset products, based on prior experience and industry averages for defective products.

18. DEFERRED INCOME

	2017	2016
	US$'000	*US$'000*
Government subsidies	**23,607**	23,867

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

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

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

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

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

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

Details of consideration are as follows:

	US$'000
Consideration satisfied by cash	258,648

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

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

Goodwill arising on the Acquisition and Collaboration Transactions:

	US$'000 (restated)
Consideration transferred	258,648
Less: Fair values of identifiable net assets acquired	(179,213)
Goodwill arising on acquisition	79,435

Net cash outflow on acquisition and charged to profit or loss:

Cash and cash equivalent balances acquired	88,462
Less: Cash considerations paid	(258,648)
Repayment of intercompany debt	(132,917)
	(303,103)

20. 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 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.

	As at 31 December 2017		
Financial assets/liabilities subject to offsetting	**Gross amounts of recognised financial assets (liabilities)** *US$'000*	**Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position** *US$'000*	**Net amounts of financial assets presented in the consolidated statement of financial position** *US$'000*
Bank balances	**755,327**	**(755,327)**	**–**
Bank borrowings	**(755,327)**	**755,327**	**–**
Interest receivables	**8,372**	**(7,060)**	**1,312**
Interest payables	**(7,060)**	**7,060**	**–**

	As at 31 December 2016		
Financial assets/liabilities subject to offsetting	Gross amounts of recognised financial assets (liabilities) *US$'000*	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position *US$'000*	Net amounts of financial assets presented in the consolidated statement of financial position *US$'000*
Bank balances	447,424	(447,424)	–
Bank borrowings	(447,424)	447,424	–
Interest receivables	9,514	(4,956)	4,558
Interest payables	(4,956)	4,956	–

IMPORTANT

The Group's consolidated final results for the year ended 31 December 2017 as set out in this announcement have been reviewed and audited in accordance with the relevant financial standards. The Group's results of operations in the past have fluctuated and may in the future continue to fluctuate (possibly significantly) from one period to another period. Accordingly, the Group's results of operations for any period should not be considered to be indicative of the results to be expected for any future period.

In the "Outlook" section below, it is mentioned that on the basis of a preliminary review of the Group's latest unaudited management accounts and other information currently available, the Company understands that the Group is likely to record a consolidated net loss for the six-month period ending 30 June 2018. The Group recorded a consolidated net loss of US$199,076,000 for the six-month period ended 30 June 2017.

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

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

INTRODUCTION

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai Precision Industry Co. Ltd. (a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation) ("Hon Hai", and together with its subsidiaries and associates (other than the Group), the "Hon Hai Group"), and a leader for the handset industry worldwide as a vertically integrated manufacturing services provider offering a comprehensive range of end-to-end components and manufacturing and engineering services to its customers in respect of handsets and other wireless communication devices and consumer electronic products, which include unique and innovative product development and design, casings, components, full-system assembly etc., logistics and distribution and supply chain services and solution, and repair and other after-sales services. The Group has been using the business model of eCMMS (e-enabled Components, Modules, Moves and Services), and has successfully transformed its business model from OEM (original equipment manufacturing) to ODM (original design manufacturing), IDM (integrated design and manufacture) and JDM (joint design and manufacture) by providing a one-stop shopping end-to-end service of its competencies in mechanical, electronic and optical capabilities altogether. Following the Hon Hai Group, the Group has started to adopt the model of IIDM (Integration, Innovation, Design, Manufacture) and to introduce the "Industry 4.0" smart manufacturing paradigm. With the rapid changes of market dynamics and technology, the Group works with its customers to develop their future products in accordance with their manufacturing requirements and product specifications, and aligns its investment in technology enhancement and engineering capabilities, quality control and R&D (research and development) activities to implement such requirements and specifications. The Company believes that a wider service platform, especially with high value-added contribution, could differentiate the Group from its competitors. The Group has strived to provide its customers with not only manufacturing support, but also a full range of cost-competitive services including repair, logistics and distribution services on a global basis, and the Company believes that this strategy differentiates the Group from its competitors and will help to support its customers' products during their entire life cycle and reduce the time required to bring the products to market. Specifically, the Group has set up manufacturing centers and configuration centers focused exclusively on offering our customers the ability to simplify their global product research and development, manufacturing process, and after sales services, and enable them to meaningfully accelerate customers' time to market and cost savings.

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

DISCUSSION AND ANALYSIS

Key Relationships with Customers, Suppliers and Employees

The Group's major customers include top international brands and Chinese brands, and accordingly, the Group has operations, R&D centers and manufacturing and phone repair and refurbishment facilities spanning across the Asia-Pacific region (e.g. China, Taiwan, Vietnam and India) and the Americas and Mexico which are located close to its customers to better facilitate their respective local needs and enable such customers to accelerate the launch of their products to market. Since 2017, with the roll-out of logistics and distribution business (via TNS) ancillary to manufacturing of the Nokia-branded feature phones and smart phones, the Group has been manufacturing feature phones and smart phones and distribute to customers and consumers worldwide, particularly through its operations in China, Vietnam, India and Finland. The Group's strategy is to work with the customers from the initial concept design stage up until the end of the production process managing all aspects of sourcing, development and assembly and services of phone and provide a complete range of cost competitive and vertically-integrated global supply chain solutions for our customers and consumers. This enables our customers to leverage our supply chain solutions to meet their product requirements throughout the product life cycle. Efficient management of the supply chain allows us to offer the lowest competitive prices and the fastest production times. While the products requirements have become more complex, the supply chain solutions required by such companies have become more customised and demanding and it has changed the manufacturing and supply chain landscape significantly.

With customer transition, ongoing customer diversification efforts and further penetration of existing customers, there has continued to be a more healthy change in customer mix and this helps avoid the reliance on major customers. Amongst the Group's five largest customers during the current period which accounted for approximately 81.34% of the Group's total revenue during such period, three of them have long and well established relationships with the Group and individually has been our customer for over five years. For the two remaining major customers, they have been the Group's customers for about one and a half year and a year respectively. In light of the saturated handset market, the Group values the mutually beneficial relationships with its customers by providing high quality products and services meeting global standards to them at competitive prices, thereby creating customer delight among passionate people engaged in a world-class manufacturing environment, and continues to prolong and develop closer relationships with them for mutual benefit of the Group and such customers in the long run and secure optimal utilisation of manufacturing equipments and facilities of the Group. Year-on-year changes of sales is one of the financial key performance indicators (KPIs) as this will reflect the effectiveness of the effort invested by the Group on the above and achieve economies of scale.

One of such five largest customers is Sharp Corporation, which is a connected person of the Company pursuant to the Listing Rules as it is a close associate of Hon Hai, the holding company of the Company. The revenue derived from the sales of goods and rendering of services by the Group to Sharp Corporation accounted for approximately 7.8% of the Group's total revenue from the sales of goods and rendering of services for the current period.

The credit period granted to the Group's major customers is 30 to 90 days which is in line with those granted to other customers. The allowance for doubtful debt made for the current period was US$0.12 million (when compared to the allowance for doubtful debt for the same period in 2016 of US$0.73 million), which allowance was made for specific exceptional circumstances only. Subsequent settlements of trade receivables from these major customers have been reviewed and are satisfactory requiring no provisions for the current period.

The Group's procurement team deals with over 3,000 suppliers who supply components and other materials necessary for the Group's businesses and the Group has long term and stable relationships with a lot of reputable and qualified approved suppliers, with the aim to sourcing good quality materials with competitive prices in a time efficient manner without the need of relying on some major suppliers. The Group's suppliers include suppliers for raw materials, electronic components and parts, display module, camera module, battery, enclosure and packaging materials, and the Group has generally selected its suppliers based on the quality and reliability of products, technical competence and engineering capability, on-time delivery, service quality, price competitiveness, the commercial terms for the supply transactions and specifications from its customers and industry reputation. Purchases from the Group's five largest suppliers accounted for approximately 57.14% of the Group's total purchases for the current period. One of such five largest suppliers is Hon Hai, the controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. The purchases attributable to Hon Hai accounted for approximately 12.17% of the Group's total purchases for the current period.

In response to potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks.

Employees are valuable assets to the Group and the Group has been working diligently in attracting and retaining talents. The Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified employees by offering more equal employment opportunity, competitive compensation and benefits, more favourable working environment, broader customer reach, bigger scale in resources, training and job rotation, coupled with better career prospect across many different product and business lines. The Group prides itself on providing a safe, effective and congenial work environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been implemented to ensure its working environment is healthy and safe. The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, development, rewards and retention. The Group has built up and will continue expanding a large and experienced R&D teams in China and Taiwan to support its significant opportunities for business growth (such as new technology and materials and new customers) by investing in R&D on top of its strong manufacturing and engineering capabilities to implement and execute the corresponding R&D requirements. The Group strives to reinvent productivity to empower people and organisations to achieve more and increase agility, streamline engineering processes, move faster and more efficiently and simplify its organisation. By encouraging employees to bring up innovation at work, cooperating with customers on pioneer projects and supporting start-ups on manufacturing (or even with equity investments), the Group has successfully accumulated relevant experience on procurement, value and design engineering and product development, quality management, production management, repair services, logistics and distribution competence. As at 31 December 2017, the Group had a total of 92,779 (31.12.2016: 74,652) employees. Total staff costs incurred during the current period amounted to US$570 million (31.12.2016: US$407 million), and the increase year-on-year was mainly due to the recruitment, development, rewards and retention of talents for the new business relating to the Nokia-branded products. Please refer to "Investments" and "Outlook" below for details. The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. The Company has adopted both a share scheme and a share option scheme. The share option scheme complies with the requirements of Chapter 17 of the Listing Rules. The emoluments payable to the directors of the Company are determined by the board of directors of the Company (the "Board") from time to time with reference to the Company's performance, their duties and responsibilities with the Company, their contributions to the Company and the prevailing market practice as well as the recommendations from the Company's remuneration committee.

Review of Results and Operations

Financial Performance

The financial key performance indicators (KPIs) include the above-mentioned year-on-year changes of sales and also gross margin and net margin and Return on Equity. For peer analysis, as peers may have different business strategies, business models, client mix, revenue mix (casing versus system assembly), pricing policy, cost structure, it may be difficult to make direct comparisons.

For the twelve-month period ended 31 December 2017, the Group recognised a consolidated revenue of US$12,080 million, representing an increase by US$5,847 million or 93.8%, when compared to US$6,233 million for the same period last year. Net loss for the current period was US$525 million, when compared to a net profit of US$136 million for the same period last year. The Group's net loss is primarily attributable to various factors, primarily as a result of various factors, including the following: (1) costs relating to the TNS business relating to the Nokia-branded phones; (2) a net loss arising from the impairment of the Group's investment portfolio, which is US$203 million and (3) generally lower gross margins.

Gross profit and gross margin of a manufacturing business are the common financial KPIs measuring how much a company is generating from revenues (after deducting cost of sales) to cover operating expenses. The higher the percentage of gross profit means the more profitable the business is and the more profit is available to cover operating expenses and ultimately to pass on to the owners. As the handset market is competitive and has become saturated, the price erosion and gross margin are common market dynamics despite of effort made by the Group to mitigate the impact. Gross profit for the current period was US$130 million, representing a decrease of US$211 million from that for the same period last year, mainly as a result of the decrease in gross margin. Gross margin was 1.1% and was less than 5.5% for the same period last year, mainly because the market continues to be very competitive and price erosion pressure is high. At the same time, there had been a change in our sales and product mix and there has been some decline in our casing business whilst the large year-on-year increase in sales was attributable to increase in system assembly business (which includes change of the business model of one of the Group's major Chinese brand customers from consignment to buy-sell) of comparatively low gross margin. As will be explained below in the "Investments" section, the margin of Nokia-branded phone manufacturing business is subject to extremely huge pressure in the early stage of Nokia-branded phones re-entrance into the market. The markets for key components (such as memory, etc) used in smart phones have experienced rising prices because of tightening supply. The soaring prices of key components have started to impact smart phone makers' ability to control the costs of their products and maintain healthy profit margins. For some Chinese brands, their strategy of enticing consumers with low-priced, high-specifications devices became less effective. Even if selling "affordable premium" products will lead to market share gains, profits will be eroded by high component prices. Finally, even though there were only some decline in sales amount of the casing business, there was some large extent of decline in gross margin of casing sales due to keen competition and there is surplus capacity in mechanical business industry sector as there has been excessive investments in mechanical capacities (such as CNC Machines) in previous years by peers and price competition now became a natural market phenomenon of the saturated handset market.

To remain competitive, the Group has always remained lean and optimised headcount and expenditures and managed its operating expenses. However, the Group has been making investment in the new business relating to the Nokia-branded phones and in particular providing sufficient resources (such as R&D capabilities) to the new IIDM business as well as ongoing expenditures to further develop the new business and manage the growth and securing the business continuity and hence the enhancement of the Group's overall capabilities (in terms of procurement, value and design engineering and product development, quality management, production management, knowledge building, logistics and distribution competence and the supporting IT systems) to support the new business on a global basis and enable market, portfolio and channel expansion and find alternative ways of making competitive products. This led to the increase in selling expenses and general and administrative expenses (such as payroll and personnel costs, costs of IT applications and license fees, travelling costs, professional fees, etc.) and we retired our legacy IT and ERP platform and replaced it with more affordable and modern architecture and also increase in R&D expenses mainly dedicated to new phones development.

It follows that the operating expenses for the current period was US$620 million, when compared with US$339 million for the same period last year.

In 2017, the Group made impairment provisions of US$203 million for some investments of the Group's investment portfolio. Details will be explained in the "Investments" section below.

Net profit and net profit margin are the financial KPIs measuring earnings/losses resulting from subtracting operating expenses and other losses (such as impairment losses) and tax and interest costs from gross profit earned. It measures the ability to control operating expenses and optimising tax and interest costs and minimising other kinds of losses (such as impairment loss). In light of the factors mentioned above, loss attributable to owners of the Company for the current period was US$525 million, as compared to a net profit attributable to the owners of the Company of US$138 million for the corresponding period last year. The net loss margin for the current period was 4.4%, as compared to the net profit margin of 2.2% for the same period last year.

As at 31 December 2017, the ROE (Return On Equity, representing the amount of net income returned as a percentage of shareholders' equity, which measures a company's profitability by revealing how much profit such company generates with the money that its shareholders have invested) was 16.56% negative, when compared with the ROE as at 31 December 2016 of 3.88% positive, as profit attributable to owners of the Company as at 31 December 2017 has become loss attributable to owners of the Company during the current period. The Group strives to achieve a better ROE.

Income tax expenses during the current period was US$29.8 million, representing a decrease by US$50.9 million when compared to income tax expenses of US$80.7 million for the same period last year. The decrease was mainly due to decrease in profits during the current period.

During the year ended 31 December 2017, no impairment is recognised for property, plant and equipment (2016: US$0.4 million).

Basic loss per share for the current period was US6.61 cents.

Dividends

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

No dividend was declared or proposed for the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period.

Sales

For the current period, the Group recognised a consolidated revenue of US$12,080 million, representing an increase of US$5,847 million or 93.8%, when compared to US$6,233 million for the same period last year. Thanks to the Group's continuous development and penetration of the Chinese and international brand customers and efforts to expand production capacity in India and implementation and development of the new IIDM business relating to the Nokia-branded products, the Group succeeded to increase system assembly sales in the current period, though there was some decline in its casing business in the current period. In 2017, for one of the Group's major customers, there has been a change of business model from consignment to buy-sell and the change has partly contributed to large year-on-year increase of sales revenue in the current period. By the way, the Group will continue to provide system assembly business of consumer electronic products such as eReaders and tablets and voice interaction products to an international brand. When comparing with YTD September 2017 sales of peers, sales amount of the Group is the highest.

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 (such as Chinese brands), and the Group saw diverse performance across its customers and there was rapid shift among certain Chinese OEMs (original equipment manufacturers) and the market shares of some of the Group's major customers belonging to international brands declined quite dramatically in 2016, and hence some of them drastically changed their outsourcing strategies through restructuring and produced in-house thereby cutting down the previously established outsourcing business with the Group, which had direct impact on the Group's sales in 2016. During the current period, competition continued to be fierce and price and margin erosion was still ongoing. IDC released its report in November 2017 for the worldwide smart phone market for Q3 2017. According to results from its Worldwide Quarterly Mobile Phone Tracker, smart phone OEMs shipped a total of 373.1 million smart phones worldwide in Q3 2017. Shipment volumes increased by 2.7% year-over-year, and by 7.4% quarter-on-quarter. In Q3 2017, all of the top five vendors experienced positive year-over-year growth according to IDC, with one Chinese brand's growth being the highest as it doubled its sales from this quarter a year ago. According to IDC, the smart phone industry has continued to grow, but at a much slower pace than in previous years. The report stated that other smart phone OEMs outside of the top 5 leading vendors continue to struggle, and the "industry leaders are quickly forming two camps". The first camp consists of two international brands and one Chinese brand; all of them are able to drive significant volumes at the high end. The second camp consists of Chinese OEMs that are finding success outside of their home market of China. Though the top smart phone companies are finding it harder to launch models with significantly different specifications or new technologies that will convince consumers to upgrade their phones, they continued to gain share from companies who have declined. It implies that the competitive landscape is a destiny and the Group has to strive to make improvements in all areas to remain competitive. On 1 February 2018, IDC issued another report and mentioned that smart phone vendors shipped a total of 403.5 million units during the fourth quarter of 2017 (4Q17), resulting in a 6.3% decline when compared to the 430.7 million units shipped in the final quarter of 2016. For the full year, the worldwide smart phone market saw a total of 1.472 billion units shipped, declining less than 1% from the 1.473 billion units shipped in 2016. Developed markets such as China and the United States both witnessed a decline during the quarter as consumers appeared to be in no rush to upgrade to the newest generation of higher-priced flagship devices.

In a slowing smart phone market in 2016 where large players were experiencing growth saturation and there was a slowdown in smart phone shipments with China showing a more mature growth pattern, emerging brands were disrupting existing brands' long-standing business models to gain their market shares. With such changing smart phone market dynamics, Chinese brands were emerging as the new top global brands since 2016. The success of these Chinese brands lies in their good hardware designs, robust product quality, attractive prices, strong retailer penetration, effective channel strategy, differentiated and diversified products portfolio, effective marketing initiatives and increasing brand awareness among mass-market consumers as well as well-established distribution system in offline channel. In order to fill up the shortfall in the first half of 2016 due to the drop in sales by some major customers, the Group has put efforts to continue to diversify its customer base by reducing its customer concentration and therefore the risks associated with reliance on a handful of major customers. The Group has used customer-centric approach to develop business with some of the top Chinese brand customers and helped them to develop domestically and overseas and this has been the focus of the Group since then. Chinese brand customers contributed to the recovery of the Group's sales in the second half of 2016 and also the growth in the current period. It is notable how diverse each Chinese brand's strategy for success in China has been. Some have prioritised rural China, setting up a huge network of brick-and-mortar stores that get their devices out to consumers who might not yet have access to the internet. One of the Group's Chinese brand customer has experienced strong year-on-year growth and has been and remains dominant in online sales, though online sales have fallen as a proportion of phone sales in China owing to the faster growth of offline sales conducted via physical retail. The major resurgence that this Chinese brand customer has enjoyed over this past year is due to the new strategy of integrating more real-world stores with its already successful online strategy. Another Chinese brand customer of the Group has focused primarily on urban China, and it has reaped the rewards of it as one of the leading brands. Since the competition in the saturated market is fierce, the Group needs to be competitive in all areas and spend more time and efforts to bring in new customers (of small size than existing customers) and get more order allocations from existing customers.

The Group has continued to review its global capacities to optimise resources and increase capacity in emerging markets like India and further align its manufacturing capacities with the geographic production demands of customers. With domestic smart phone shipment growth slowing down, all these Chinese OEMs have to internationalise and expand their reach outside of their own countries and expand beyond China and continue their growth momentum in emerging markets like India where the "Make-in-India" campaign has prompted more local and Chinese brands to seek ODM/OEM/EMS (electronics manufacturing services) partners with massive capacity in India. The Company believed that India and other emerging markets in the Asia-Pacific region and Sub-Saharan Africa would drive most of the smart phone shipment growth in the coming years. Given the lower price points in these markets — half of all smart phones sold in India are less than US$120 — these markets will favor value driven Android vendors like the emerging players in China over premium players. Also, in emerging markets like India, buyers usually purchase their phones outside a contract and are very price-sensitive Referring to Counterpoint research report, India mobile handset and smart phone market grew by 6% & 18% year-on-year driven by strong pre-Diwali shipments and feature phone segment declined 4% year-on-year but grew 22% QoQ driven by sub-USD15 devices as well as entry of Nokia-branded phones in the market during Q3. Chinese brands performance remained strong and contributed to more than half of the total smart phone shipments in India. It is the third consecutive quarter when Chinese brands' market share is well over 50% after they took over domestic India players in 2nd half of 2016 and becomes fastest growing smart phone brands during Q3 2017. The Group has set up and maintained handset assembly factories in India for years and has helped certain Chinese brand customers to develop business and grab more market shares in India and overseas markets outside of China in the past couple of years. Sales of the Group's Indian operations in the current period were about 160% more than the same period in 2016 and this is due to the dramatic growth business to a Chinese brand customer in India. The biggest catalyst for growth for this Chinese brand customer was its success in the Indian smart phone market and its being truly innovated across their products, business model, infrastructure, marketing methods and, combined with an efficient team. At the same time, the success was heavily supported by mega online festival sales during the month of September and discounts on most of the models. In offline retail, its continued expansion of its preferred partner program and the opening of new physical stores helped the Chinese brand customer consolidate its position and this proved how the strategy of balancing price and features can help a foreign company attain tremendous popularity in India. The Group's factory operations in India is one of the largest contract manufacturers in India and the Group will continue to add infrastructure and capacity to fulfill customer demands in India and it has injected additional capital of US$100 million in its India operation in January 2018.

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

In relation to the Group's continuous fostering and development of long-term relationships and partnerships with customers, on 18 May 2016, the Group entered into a collaboration with Nokia and HMD with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets. From 2017, the Group started to generate sales revenue via manufacturing and selling phones to HMD and distribution service income from such collaboration. For details of the new business and ancillary matters, please refer to the Company's relevant announcement dated 18 May 2016 and "Investments" and "Outlook" below.

As a related matter, the Group pays extra attention to its efficiency and cost control and commodity prices such as memory and competitiveness enhancement in order to offer attractive pricing to customers. For such purposes, the Group has continued to devote resources to maintain its R&D capability, engineering capability, advanced technology like automation and large capacity instrumental for strengthening our core competence and competitive edge. Long-term win-win business relationships with the customers can then be built up, developed and fostered.

P&L (Profit and Loss)

With the diffusion of innovation and technology, smart phone industry has been already commoditised. Highly homogenous products have increased the competition in the market as it became more fragmented and modular structure of the industry has lowered the barriers for the new entrants to enter the market and offer products with high specifications for affordable price to consumers. The smart phone Industry is characterised by modularity just like the computer industry has been. The significance of modular designs has been linked to the rapid rate of innovation in the industry and contract manufacturing along with modularity has given rise to the competition in the industry as new players enter the business with the ability to produce at low cost but high efficiency. As mentioned in the above section of "Sales", the year-on-year increase of sales was mainly attributable to the corresponding expansion of system assembly business of lower gross margin and the manufacturing and distribution of Nokia-branded phones and the change of business model of one major Chinese brand customer from consignment to buy-sell. Prices of some key components like memory have been steadily rising for about a year. With rising competition from peers and rising component price and crowded competition in casing business, all these induced heavy pricing pressure on the Group and hence inevitably imposed pressure on gross margin. In particular, as mentioned in the "Outlook" section below, the biggest challenge is the new business relating to the manufacturing of Nokia-branded products. At this stage, the Nokia-branded products primarily comprise feature phones and smart phones. The Group's strategic partner HMD obviously needs time to promote, develop and prove itself in the competitive handset market (especially for smart phones). HMD has to achieve product quality, strong retailer penetration, effective channel strategy, differentiated and diversified products portfolio, effective marketing initiatives and increasing brand awareness among mass-market consumers, all of which will increase costs of HMD running the Nokia-branded phone business. In order to penetrate the market and capture market share in the beginning, the pricing of the Nokia-branded smart phones has to be very competitive and aggressive and cannot be sold at prices higher than those adopted by its competitors in respect of similar products. In addition, Nokia-branded smart phones also need to have better hardware and specifications than competitors' products of similar selling pricing so as to induce consumers to switch to the Nokia-branded phones and this will inevitably increase bill of material costs of smart phones and all these unfavorable factors affect the selling prices of smart phones manufactured by the Group which are sold to HMD and gross margin pressure is extremely high. To relieve its pricing and gross margin erosion pressure in the stiff competitive handset market, Bill-of-Material (BOM) control is of critical importance. In terms of Nokia-branded smart phone production volume in 2017, it has reached a satisfactory level in their first year of operation whilst feature phone shipment has steadily climbed quarter on quarter throughout 2017. But the volume is still not large enough to drive economies of scale so that the Group's sourcing can allocate procurements to only limited amount of suppliers to enable the Group to have stronger bargaining power and buy at bulk and at more competitive prices and drive BOM costs down step by step. The volume of manufacturing of Nokia-branded business will hinge on the success of HMD. Internally, the Group will continue to devote adequate resources to program sourcing and address BOM cost competitiveness by leveraging off 2017 experience and gradually obtain improved position with suppliers and also to drive for better internal operations efficiency and yields to lower manufacturing costs. But as whole, it is anticipated that it still needs quite some time to reach scalability as HMD is now operating in a handset market which is close to saturation. Also there are big risks with commodity prices like memory and whole memory industry is in big constrain which driving cost up and cause supply disruptions.

The Group has strived to improve efficiency and maintain a good and stable yield by enhancing production automation and asset utilisation and capacity optimisation and also quality assurance and quality control and tighter control on manufacturing overheads. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to lighten the impact of rising labour cost and enhance efficiency. The Group's dedicated and professional procurement team is leveraged to source materials with competitive prices. Furthermore, there has been continuous strong support from the Hon Hai Group to offer in scale, solid component support and stable supply of key components and vertically integrated supply chain that allow for production synergies. The Group can leverage on the Hon Hai Group's resources, giving the Group more flexibility in outsourcing capacity. To remain competitive, ramp-up time was shortened and the Group's production capacity and R&D capabilities were enhanced to cope with higher customer demands and cultivate long-term relationships and partnerships with customers via providing additional products and end-to-end and value-added product design and development solutions. All these initiatives have been implemented to allow the Group to be more price competitive via cost leadership and win more volumes of business from the customers and strive for greater economy of scale and enhance the bargaining powers with suppliers, thus gradually mitigating the pressure from price and gross margin erosion due to keen competitions and product mix deterioration with lower ASP (average selling price) pressure from some customers. As the Group made investment in the new IIDM business in 2017 and recorded loss, it rendered difficult to compare the gross margin and net margin with peers.

Across overall business in 2017, through the efforts of developing business with Chinese brands, Asia segment remained the Group's core performance contributor in terms of sales turnover and segment profit and the efforts continued in 2017. The revenue of Asia segment in the current period was US$10,242 million, representing an increase of 76.6% from that for the same period last year (31.12.2016: US$5,801 million) and the growth was mainly due to the growth of system assembly business of low margin to Chinese brand customers (including

Chinese brand customers selling to India market), Indian customers and an international brand customer and increase of sales associated with the change of business model of a major Chinese brand customer from consignment to buy sell. There are also sales generated by the new business relating to the manufacturing of Nokia-branded products by the Group's manufacturing entities in India to HMD India. In the current period, Asia segment's recorded earnings were US$237 million and were less than the recorded earnings of US$368 million for the same period last year, mainly because the growth of sales arose from system assembly business of lower gross margin. Due to crowded competition and excess capacity in casing industry, gross profit and gross margin of casing business also declined. The emerging Chinese brands have continued to gain market shares from international brands and maintain sustainability in the saturated China market due to the former's attractive pricing and localised design. Amid fierce competition, China smart phone market continues to be the focus of the Group. Years ago, the Group has shifted the gravity of operations to China (for manufacturing products for the domestic market and export and research and product development) and Taiwan (for research and product development) after the downsizing of European sites, and resources have been continuously devoted to Asia segment including India (which is of further growth potential) so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment (especially India) and develop more new businesses and customers there. Apart from sales of manufactured phones, there were distribution service income earned by TNS (which is a distributor of HMD) on selling and distribution of Nokia-branded phones which are manufactured by the Group in Asia (China and India and Vietnam) to Asian and Africa emerging markets for HMD. To earn the distribution service income, TNS needs to incur operating expenses and general & administrative expenses which can be significant before scale is built up.

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

The recorded revenue of European segment in the current period was US$1,648 million when compared with the recorded revenue of US$178 million for the same period last year. The revenue of Europe segment increased a lot in the current period as the Group has started to manufacture feature phones and smart phones in Asia (China and India and Vietnam) under the new business relating to the Nokia-branded phones and sell the phones to HMD which is a Finnish company. TNS (which is a distributor of HMD) then sells and distributes some of the handsets throughout the European markets for HMD and earns distribution service income. The recorded loss of this segment in the current period were US$162 million which were much greater than the recorded earnings of US$1.1 million for the same period last year. In the context of the new business relating to the manufacturing of Nokia-branded phones, as mentioned above, there was fierce price competition and the selling price of the Nokia-branded phones to the end market have to be competitive upon its re-launching to the handset market and the Group's as a partner to HMD, the selling price and gross margin of phones manufactured by the Group is under huge pressure as there is no economy of scale yet in terms of sourcing and commodity prices of some key components have remained high. At the same time, the Group has to devote resources to develop new products for HMD and build up sourcing capabilities and manufacturing scale and the margin is under huge pressure. Just like

Asia segment, to earn the distribution service income, TNS needs to incur operating expenses which are significant before scale is built up. At this stage, the performance of Europe segment has deteriorated dramatically and the Group has to monitor more closely and then assess the impact of the performance of this segment on Group's overall performance.

For America segment, because of the loss of market shares and change of outsourcing strategies, certain key customers of the Group which previously shipped a lot of products to America segment reduced their orders to the Group in 2016 and in the current period, thus leading to further shrinkage of sales of America segment in the current period, thereby further adversely affecting performance of this segment. The recorded revenue of America segment in the current period was US$190 million when compared with the recorded revenue of US$254 million for the same period last year. Core business (both now and under development) of American segment entities in the States and Mexico are mainly provision of services including reverse logistics, repair and refurbish of smart phone for OEMs and carriers (for in warranty and out of warranty services). The recorded earnings for the current period were US$28 million when compared with the recorded earnings of US$9 million for the same period last year. The performance of America segment did not have a significance adverse impact on the Group's overall performance as sales and earnings of America segment had dropped since 2016 and now became insignificant to the Group's overall sales.

Investments

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

Investments in New Business relating to Nokia-branded Products

On 18 May 2016, the Group entered into an agreement with Microsoft Mobile Oy (as seller) and HMD (as another purchaser) to acquire certain assets of the feature phone business then operated by Microsoft Corporation, comprising a manufacturing facility in Vietnam and certain other assets that were utilised in the conduct of such feature phone business at a total consideration of US$350 million (US$20 million of which being payable by HMD). Goodwill of US$79.4 million has arisen from the above acquisition. During the year ended 31 December 2017, management determined that there is no impairment for goodwill by comparing the recoverable amounts of the cash generating unit (CGU) and carrying amounts of the CGU. For the new business relating to the Nokia-branded products as operated through the "TNS"-named entities and related entities altogether belonging to the Group (collectively, "TNS"), the collaboration among Nokia, HMD and TNS has provided for a framework among the parties with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets. Pursuant to such collaboration, while HMD has been engaging exclusively in the Nokia-branded products business, TNS has continued to develop business with HMD covering primarily the manufacture of feature phones and smart phones together with accessories in Asia (China and India and Vietnam) under the manufacturing agreement between HMD and the Group and the distribution arrangements between HMD and TNS, so that phones bought by HMD will be distributed by TNS and the Group could generate more revenue and distribution service income via TNS as well as enhance utilisation of its assets, capacities and capabilities in its handset manufacturing business and fulfillment services. The

Company notes HMD's ambitious plans to become a globally recognised player in the handset and tablet markets. In the current period, the Group's strategic partnership with HMD has gradually taken shape and become much closer so as to enable the strategic partners to jointly tackle and resolve some teething problems through swift actions towards better achievement of their objectives. This demonstrated the strength of the Group, in particular, its manufacturing operations and R&D capabilities.

For the manufacturing part of business with HMD, right now we manufacture feature phones in Vietnam and India whilst Smart phones are manufactured in China and India. By end of 2017, barely 1 year after the commencement of Nokia-branded Business, 6 smart phones and 5 feature phones were introduced and made available for consumers globally. The products had won several awards from expert panels including best Android Smart Phone (via Android Association), Nokia 8 and most popular Android Smart Phone (via GSM Arena), Nokia 6. By no means this is the first achievement for a start-up venture. From operation perspective, the biggest challenge was to ramp up the supply capability for smart phones. Moving to 2018, HMD will add further product categories to complete the offerings as well as renewing 2017 portfolio. From P&L performance perspective, as explained above in the "P&L" section, there are a lot of challenges with price and margin pressure remaining extremely high.

For the distribution part of business of TNS, year 2017 was the first full operational year and key objective for the year was to build distribution capabilities worldwide covering operator, retail and open distribution channels. For the feature phone part of the new business, the Group, via TNS, started business with acquired feature phone channel from MSFT in December 2016 and now has direct commercial relationships with over 600 distributor partners and customers spreading over 70 countries, and over 250,000 retail outlets are selling Nokia mobile devices and the feature phone distribution coverage is worldwide. For the smart phone part, the Group, via TNS, is strongly building on feature phone channel to reach worldwide distribution coverage. The Group firmly believes that this is its competitive advantage in the long term. The Group will continue to invest in the new business, particularly the expansion of its network to further enhance its global presence, allowing countless partners, customers and consumers easier access to its products and services. TNS focused on channel profitability to motivate channel partners to invest into Nokia distribution. Although the feature phone market size is on a slow decline, with innovative designs and meaningful functional enhancements, there are still lucrative opportunities to be harvested in this market segment.

On the smart phone side, in addition to the above, the Group's journey started with a milestone in January 2017 with the introduction of a new smart phone Nokia 6 as a local PRC (the People's Republic of China) version. Supply was available during the 2017 Chinese New Year selling season and consumer demand quickly exceeded the Group's expectation. New smart phones were announced in 2017 MWC (Mobile World Congress, which was held in February/ March 2017) and have been commercially available and the responses were very positive with much publicity on product-build quality and craftsmanship and pure Android experience with monthly security updates, delivering the brand promise matching that attached to Nokia products previously launched by Nokia itself. The TNS working teams were very excited about the start with this range of products, and FIH and TNS and HMD have continued to work together to expand and make available new products and product offerings in the second half of 2017 to cater for increasing consumer demands as the Group strives to remain as the market leader in the handset manufacturing industry. Notwithstanding that the journey has enjoyed a good start, the Group is cautious about unforeseen factors and circumstances like fluctuating market conditions (such as demand of the products, market competitiveness and commodity prices increase and price and margin erosion pressure) of the manufacturing part of business and economic uncertainties, particularly to fill in the gaps to achieve its strategic ambition and objective. Continuous investments in TNS are still needed to expand its commercial network and channel, product portfolio development and commercial offerings, product developments, application systems, manufacturing footprint and talents recruitment with the aim to operating the new business relating to the Nokia-branded products more smoothly and successfully in the long run. These investments together with the gross margin erosion pressure mentioned above will unfortunately continue to be a very heavy burden on the Group and hence its profitability and margins. For details, please see the Company's announcement dated 3 April 2017 and "Outlook" below. However, it is anticipated that as the new business size increases, this burden will gradually be reduced correspondingly over time. But of course, it has been emphasised that it takes time to grow the business size and volume as the handset market is very competitive. In addition, the Group will continue to work on business synergy and process improvements to make the entire operations more efficient.

Other Major Investments

With the continuous development of Internet and the mobile ecosystem, the Group has partnered with some strong mobile application and services companies in order to capture the market growth, implementing the "Hardware and Software Integration" strategy and there is no performance guarantee in respect of any investment.

The Group invested US$24 million equity investment in Meitu Inc. (the shares of which are listed and traded on the Hong Kong Stock Exchange with stock code: 1357, "Meitu"), a leading mobile internet platform company specialising in photo and video applications, as well as selling self-branded smart phones for optimised selfie experience. Meitu also started to incorporate Artificial Intelligence (A.I.) in its products such as launching Andy the ArtBot that generates hand-drawn artwork based on users' selfies, as well as the A.I.-based skin analyzer that can provide effective skincare recommendation to users through analyzing a selfie. The Group believes that the combination of a sizeable user based and AI technology will drive Meitu improvement in monetisation in the future. The Group's total investment in Meitu represented about 1.28% (calculated on as-converted and fully-diluted basis) of the total issued shares of Meitu as at 31 December 2017. Since Meitu launched its initial public offering successfully in Hong Kong in 2016, the Group disposed of part of its Meitu shares to realise a portion of the financial return and has gained US$15 million realised profit. For details, please see the Company's announcements dated 9 August 2017. As at 31 December 2017, US$55 million of unrealised revaluation gain was recognised from an accounting perspective as "Other Comprehensive Income" by the Group for its share price growth in the market during 2017. As at 31 December 2017, its fair value amounted to US$76 million and represented 0.86% of the Group's total assets. After IFRS 9 becomes effective (More details are provided in Note 1, "Application of new and revised IFRSs") in 2018, the Group has classified its investment in Meitu as fair value through profit or loss ("FVTPL"), all changes in fair value from US$76 million will be recognised in profit or loss from 2018.

In August 2016, the Group invested approximately US$50 million in Hike Global Pte. Ltd. ("Hike"), an India-based social media application developer. Hike built up an instant peer-to-peer messaging application with localised lifestyle functions and currently has more than 130 million registered users in India. After launching Hike v5.0 and wallet in June 2017, Hike keep working on providing better user experience. Hike Total, the platform going to be launched in 2018 Q1, enabling users access to Hike Messenger and certain other services without an active internet connection. In order to compete with existing big players like WhatsApp and Facebook Messenger, Hike look up to drive user growth with its local strategy and resources by launching more lifestyle functions and improving app efficacy. The Group's investment in Hike had a net carrying value of US$50 million as at 31 December 2017 and represented 0.57% of the Group's total assets. The amount is measured using fair value model based on a valuation performed by an independent qualified professional valuer (the "Valuer"). In determining the recoverable amount of the investment in Hike, the Valuer has applied income approach. The income approach was considered to be an appropriate valuation approach in the valuation, as it takes the future growth potential and firm-specific issues of Hike Group into consideration. Under the income approach, the discounted cash flow (DCF) method was adopted in the valuation. The DCF method is the most fundamental and prominent method of the income approach. In applying the DCF method, the free cash flows of the subject asset in future years were determined from the net income after tax plus non-cash expenses, such as depreciation and amortisation expenses, and after-tax interest expense; the result was then less non-cash incomes, investment in capital expenditure and investment in net working capital. After IFRS 9 becomes effective in 2018, the Group has designated the investment in Hike as fair value through other comprehensive income "FVTOCI", all changes in fair value will be recognised in other comprehensive income from 2018.

The Group invested in Mango International Group Limited ("Mango"), a company which provides smart phone to help hotels better monetise and understand their guests through customised system. Since the Group's investment in 2015, Mango's business expanded into certain major tourist destinations in the world and collaborated with various leading hotel groups and luxury hotel icons. It generates further values for the Group and its investment in Mango from the synergies between Mango's hardware-as-a-service business model and the Group's handset manufacturing experience in supplying phones to Mango. In the current period, Mango continued to increase the scale of participating hotels especially in Japan. However, it faces keener competition from apparently similar functioned services or products to expand its business, the Group will closely monitor its operating performance and cash flow. The Group's total investment in Mango represented about 21.57% (calculated on as-converted and fully-diluted basis) of the total issued shares of Mango as at 31 December 2017 and it is booked as Interests in Associates subject to impairment assessment and is not within scope of IFRS 9. The carrying value of the Group's investment in Mango amounted to US$76 million, and the fair value of the outstanding convertible note issued by Mango in favour of the Group amounted to US$60 million. They represented 0.86% and 0.68% of the Group's total assets, respectively. The fair value of the convertible note is measured using fair value model based on a valuation performed by the Valuer. The fair value of the convertible note equals the product of spot price and the number of converted common shares.

The Group's US$200 million equity investment made in September 2015 in India-based Jasper Infotech Private Limited ("JIPL"), which runs an online marketplace and shopping site known as "snapdeal.com" in India, represented about 4.07% (calculated on as-converted and fully-diluted basis) of the total issued shares of JIPL as at 31 December 2017. The Group recognised US$160 million impairment loss as at 19 May 2017 according to the valuation amount of a potential merge deal, while the negotiation was finally terminated due to dissent of minority shareholders and complicated tax problems between Singapore and India. In 2017, the main market players had moved into the next stage to provide more products and services via collaboration with various business partners, which limited the room for JIPL to develop in the future. The recoverable amount of JIPL is US$3 million. In determining the recoverable amount of the investment in JIPL, the Valuer has applied income approach. The income approach was considered to be an appropriate valuation approach in the valuation, as it takes the future growth potential and firm-specific issues of JIPL into consideration. Under the income approach, the DCF method was adopted in the valuation. The DCF method is the most fundamental and prominent method of the income approach.

As the recoverable amount of JIPL is minimal, the Group decided to make a further US$40 million impairment loss as at 31 December 2017. As a result, JIPL represented no more shares of the Group's total assets as at 31 December 2017. After IFRS 9 becomes effective in 2018, the Group has classified the investment in JIPL as FVTPL, all changes in fair value will be recognised in profit or loss from 2018.

Other Miscellaneous Investments

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

In June 2017, the Group invested about US$3 million in Essential Products, Inc. ("Essential"), a U.S.-based high-end Android smart phone company led by a group of experienced experts in the mobile industry (including Essential's founder who is a co-founder of Android). In particular, the Group has entered into an ODM partnership with Essential, principally providing the latter with the Group's engineering design expertise and cutting-edge manufacturing technology. The Group believes that the deep collaboration with Essential is a powerful alliance which will create great synergy and bring a series of promising products to the market and build up a smart ecosystem. The Group's total investment in Essential represented about 0.25% (calculated on as-converted and fully-diluted basis) of the total issued shares of Essential as at 31 December 2017. After IFRS 9 becomes effective in 2018, the Group has designated the investment in Essential as FVTOCI, all changes in fair value will be recognised in other comprehensive income from 2018.

The Group invested about US$2.2 million in Jiangsu Liang Jin E-Commerce Holdings Ltd. (the shares of which are listed and traded on the PRC's "New Third Board (NEEQ, National Equities Exchange and Quotations) with stock code: 834438.OC, "Liang Jin"), a distributor of mobile devices and accessories in the PRC. Liang Jin has successfully built up its e-commerce platform to eliminate multiple intermediaries in mobile device supply and developed businesses with certain top international brand customers. The Group not only gains exposure towards e-commerce industry, but also leverages on Liang Jin's channels to distribute its products in the PRC. Since Liang Jin's successful listing in the PRC in December 2015, the

Group has enjoyed about 48% growth for its investment in Liang Jin with a value of US$3.25 million as at 31 December 2017. As a result, the Group's total investment in Liang Jin represented about 4.41% (calculated on as-converted and fully-diluted basis) of the total equity interests of Liang Jin as at 31 December 2017. In 2018, Liang Jin would mainly keep servicing the brand companies and build up a smart logistics warehousing service for the clients from brand companies to SMEs. To provide the customised products and services based on the feedback of sales activities. After IFRS 9 becomes effective in 2018, the Group has designated the investment in Liang Jin as FVTOCI, all changes in fair value will be recognised in other comprehensive income from 2018.

The Group invested about US$5 million in Razer, Inc. ("Razer"), a leading global lifestyle brand for gamers, with dual headquarters in San Francisco and Singapore. Razer is one of the most recognised brands in the global gaming and e-sports communities. The company has designed and built the world's largest gamer-focused ecosystem of hardware, software and services. Due to the robust growth of e-sports markets and Razer's unique combination of brand, ecosystem and global footprint, the Group believes that Razer will keep expanding its product lines and cooperate with the Group to create a comprehensive and seamless gaming experience for its global users. On 13 November 2017, Razer completed its initial public offering ("IPO") and listed its shares on the Hong Kong Stock Exchange (stock code: 1337). US$6 million of unrealised revaluation gain was thus recognised as "Other Comprehensive Income" (in accounting term) by the Group for its share price growth in the market this year. As at 31 December 2017, its fair value amount to US$11 million and represented about 0.25% of total post-IPO issued share of Razer. After IFRS 9 becomes effective in 2018, the Group has classified the investment in Razer as FVTPL, all changes in fair value will be recognised in profit or loss from 2018.

Just like investing in Meitu and Handy which the Group sells phones to, in December 2016, the Group invested US$2.5 million in a minority interest in HMD, one of the new and promising customers of the Group in Nokia-branded mobile phones and tablets. During 2017, HMD successfully expanded into 39 countries with 50 sales offices. As set out on page 37 above, business with HMD has grown significantly and the Group will consider further investment in HMD to facilitate further growth when the opportunity arises.

The Group invested in CExchange, LLC ("CEx"), which engages in the business of consumer electronics trade-in and buy-back in the States since 2014. In the current period, CEx made improvement in diversifying its customer portfolio and providing quality and innovative services to its customers, and its operational performance steadily improved in view of its increased revenue and gross margin. Therefore, the Group made further investment of a total of about US$1.3 million in CEx in November 2016 and February 2017 respectively. As at 31 December 2017, the Group's investment represented 49% of the total membership interests of CEx. Its carrying value of US$8.7 million represented 0.10% of the Group's total assets as at 31 December 2017.

The Group made its US$2.5 million equity investment in MoMagic Technologies Private Limited ("MoMagic"), which helps application developers and content firms reach consumers through various means in mobile networks at the Indian handset market. After the investment from the Group in October 2015, MoMagic was able to develop its technologies and demonstrated a sustainable profitability model. In the future, MoMagic will expand its business by broadening its geographical outreach to other Asian countries, and bring in more values to its customers by providing them with analytic service of data, traffic and mobile use behaviours for more-precise e-advertising in the Indian market. As at 31 December 2017, the Group's investment in MoMagic had a net carrying value of US$2.5 million and represented 10% (calculated on as-converted and fully-diluted basis) of the total issued shares of MoMagic. After IFRS 9 becomes effective in 2018, the Group has designated the investment in MoMagic as FVTOCI, all changes in fair value will be recognised in other comprehensive income since 2018.

Other Investment-Related Matters

For the current period, except as disclosed above and based on the information currently available, the Group was not aware of any circumstances which involve any material impairment in respect of its major investments, and the Company believes that their long-term prospects are optimistic for the time being. In such a dynamic and volatile equity investment market, the Group's investment team is cautious at all times, and therefore they will continue to monitor the performance and financial position, cash flow, burn rate and fund raising activities of investees, related macro-economic factors and competition landscape and technological changes and innovation, viability of business models as well as execution capabilities of the respective management teams of those investees.

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

The Group has been maintaining healthy cash flows for years. As at 31 December 2017, the Group had a cash balance of US$1,980 million, which provides the Group with adequate financial resources to cope with unforeseen operational fluctuations. In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring and evaluating good investment opportunities of potential that can add value to the Group and the Group's investment strategies will be adjusted to be more focused on the phone related hardware, software, sales and marketing services providers for building up the phone ecosystem portfolio including but not limited to IoT smart devices, smart home products, online gaming or others for synergies creation via establishing strategic partnerships with technology companies. Among the characteristics that we look for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations; favourable long term growth prospects; and cultural fit with the Group. The Group has an experienced investment team and will continue to hire talents and has prioritised investments of comparatively low risks and with long-term growth prospect which may take years before investment can be realised. As a whole, the Group will be cautious on expanding its investment portfolio in order to create synergies but at the same time to cope with the possible uncertain economic environment and volatility of the capital market in 2018.

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

Compliance with Relevant Laws and Regulations

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

The Group has been operating multi-nationally (coupled with investments) in its principal operating locations, 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 optimised in a tax-efficient and robust manner, taking into account commercial and financial perspectives in multiple jurisdictions. In this respect, the Group's major operating subsidiaries fall under different tax regimes in the PRC, Taiwan, India, Vietnam, Finland and America where different tax laws and regulations as well as specific concessionary incentives apply. For example, when planning the business model and supply chain of the Group's Indian operations, among other things, duty structure of domestic manufacturing was compared with direct import, and possible implications and impacts arising from newly-introduced GST (goods and services tax) were assessed. With respect to Indian GST, as post GST implementation since 1 July 2017, the Indian government had raised BCD (customs duty) for mobile phone finished goods from 0% to 10%, which is beneficial to the Group's Indian operation. 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. As to PRC tax, on 21 December 2017, the Ministry of Finance (MOF), the State Administration of Taxation (SAT), the National Development and Reform Committee (NDRC) and the Ministry of Commerce (MOFCOM) jointly issued a new circular (Caishui [2017] No. 88, or Circular 88), formally setting out detailed guidance on the withholding tax deferral incentive for foreign investors, which applies to qualified reinvestment occurring after 1 January 2017. In general, after 1 January 2017, if foreign investors directly reinvest their profits distributed by PRC resident enterprises to some "Encouraged Industries" and meet certain prescribed conditions, then the 10 percent withholding income tax on the distributed profits may be deferred until the foreign investors' disposal of such reinvestment in PRC. Circular 88 has yet to clarify all the details and answer some practical questions on tax deferral treatment (for example, whether the tax deferral treatment applies to dividends declared after 1 January 2017, but based on retained earnings generated by the profit distributing enterprise before 1 January 2017) and accounting and tax team of the Group is following this up with local taxation authority. Apart from this, for US tax reform and tax cut, there will not be much impacts to the Group as the Group's operation in the US is comparatively small. Apart from the above, the Group also accounts for the relevant laws and regulations regarding transfer pricing, in order to ensure efficiency and sustainability of the operating models and global tax footprint, as well as sufficient tax risk management. During the current period, apart from the above, there were no major changes in applicable tax laws and regulations which have a significant impact on the Group's tax expenses, and the Group will continue to monitor possible impacts and implications arising from applicable new and/or revised tax laws and regulations. The Group is also closely following the global and local level developments following the Base Erosion and Profit Shifting (BEPS) Action Plans of the Organisation for Economic Cooperation and Development (OECD).

The Group has kept abreast of the accelerating pace of tax, legal and regulatory developments in the different jurisdictions in which its key operations are located, and there are regular and on-going reviews of existing investment holding structures and operations as well as business models and capital structures in light of the latest tax, legal/regulatory and business requirements and environment. In this respect, the Group's major operating subsidiaries have taken appropriate steps to ensure that each of them is aware of the local laws and regulations that have a significant impact on its business and operations and takes these relevant local laws and regulations into account in relation to their operations and value chain management, as appropriate, and complies with these relevant local laws and regulations in material respects.

The Group has also responded to trade restrictions imposed by relevant 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.

Liquidity and Financial Resources

As at 31 December 2017, the Group had a cash balance of US$1,980 million (31.12.2016: US$1,374 million). Free cash flow, representing the net cash used in operating activities of US$113 million (31.12.2016: net cash from operating activities of US$235 million) minus capital expenditure and dividends of US$362 million (31.12.2016: US$329 million), was US$475 million outflow (31.12.2016: US$94 million outflow). The decrease in free cash flow was mainly due to more cash has been used in operating activities during 2017. 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$713 million (31.12.2016: US$419 million) over total assets of US$8,788 million (31.12.2016: US$6,963 million), was 8.11% (31.12.2016: 6.02%). All of the external borrowings were denominated in USD (31.12.2016: USD, RMB and Japanese Yen). The Group borrowed according to real demand and there was no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest bearing external borrowings were all at fixed rate ranging from 1.72% to 2.4% (31.12.2016: fixed rate ranging from 0.45% to 8%) per annum with original maturity of one to six months (31.12.2016: one to six months).

As at 31 December 2017, the Group's cash and cash equivalents were mainly held in USD and RMB.

Net cash used in operating activities for the twelve months ended 31 December 2017 was US$113 million.

Net cash from investing activities for the twelve months ended 31 December 2017 was US$506 million, of which, mainly, US$220 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC, US$131 million represented withdrawal of bank deposits, US$3,074 million represented purchase of short-term investments, US$4 million represented purchase of available-for-sale investments, US$1 million represented capital injection in an associate, US$9 million represented proceeds from disposal of property, plant and equipment, US$3,636 million represented proceeds from settlements of short-term investments and US$29 million represented the proceeds from disposal of available-for sale investments.

Net cash from financing activities for the twelve months ended 31 December 2017 was US$142 million, primarily due to net increase in bank borrowings of US$293 million, interest paid of US$9 million and dividends paid of US$142 million.

Exposures to Currency Risk and Related Hedges

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

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

Capital Commitment

As at 31 December 2017, the capital commitment of the Group was US$4.3 million (31.12.2016: US$8.4 million). Usually, the capital commitment will be funded by cash generated from operations.

Pledge of Assets

There was no pledge of the Group's assets as at 31 December 2017 and 2016.

Outlook

Compared to the turbulent 2016 which is an eventful year with a number of "black swan" events globally, 2017 global outlook becomes stable on improving economic and political landscape. Global economic growth remains on track as the concerns raised in 1st half of 2017 on some negative developments with the potential jeopardising the economic recovery failed to materialise. U.S. President Donald Trump's protectionist agenda has not yet come to fruition and global trade is in good shape. In 2017, almost all of the world's major economies were in some phase of expansion, leading to a self-reinforcing global acceleration and the primary driver of the pickup in global activity and momentum was China's reacceleration over the past 18 months, which catalysed a turnaround in global industrial production, exports, commodity industries, and the profits of multinational corporations. China's last five plus years of growth is largely due to the expansion of debt (going from 160% of GDP in 2008 to 260% by the end of 2016 per Bloomberg) has spawned the usual excesses: over-employment and over-production in stagnant "zombie" industries, bailouts of banks, new forms of unregulated credit ("shadow financing" and "wealth management products"), property speculation…While the growth outlook for 2018 looks good, there are also some other downside risks. For 2018, there are signs that Chinese government is already removing stimulus from the economy, and it appears they are inclined to focus on addressing structural issues and attempt to rein in China's credit boom and rapid increase in debt by tightening shadow financing and allowing short-term interest rates to rise. This has already resulted in credit growth falling to its lowest rate in almost a decade and efforts have been made to restrain production in areas of overcapacity as well as policies to slow construction in housing and infrastructure. All these decisions will have impact on China's economy and the global financial market. Integration into global value chains was instrumental in China's spectacular economic growth in recent decades. Moving to higher value-added production calls for improvements in the quality and relevance of innovation when lower-skilled jobs move to lower-cost countries in the region. Because China's business cycle is often driven more by state policy than private market indicators, the directional shift away from policy easing carries risks for its near-term growth outlook and this leads to greater uncertainties for China's 2018 performance. There is no doubt that China will be the primary source of significant downside risks for global activity given its centrality in global trade, manufacturing, and commodities. For fiscal ammunition, China has over $3 trillion in foreign exchange reserves and easily more than double that in national debt capacity — the question is the timing to deploy these assets.

The final agreed form of US sweeping tax reform will impact individuals, businesses and the entire economy and may lead to unsustainably large fiscal deficits potentially squeezing financial conditions at an unexpectedly fast pace with wider spill over effects and it needs time before the actual impacts are envisaged. The issuance of Circular 88 represents the Chinese government's strong fiscal support to encourage and promote foreign investment in the encouraged industries and Central-Western China by creating a more convenient and competitive tax environment for foreign investors. This incentive may also be viewed as an effort by the central government to retain tax revenue within China. In light of the recent US tax reform, which aims to attract multinational corporations and foreign capital to invest in the US economy, the reintroduction of the dividend income tax deferral incentive to encourage reinvestment within China will more or less help maintain China's economic growth and reduce capital outflow.

Finally, politics risks include Trump/Congress/mid-term elections, Brexit negotiations, North Korea aggression, Russian meddling in the Middle East and Europe, the Middle East as its own factor, a divided/weak German government.

According to a new forecast from the IDC Worldwide Quarterly Mobile Phone Tracker made in August 2017, worldwide smart phone shipments are expected to maintain positive growth through 2021. IDC expects shipments to grow from 1.47 billion in 2016 to just over 1.7 billion in 2021. In 2016, the market experienced its first-ever single-digit growth year with shipments up just 2.5% over 2015. IDC believes the combination of new user demand as well as a somewhat stagnant 2-year replacement cycle will be enough to keep the market at a 5-year compound annual growth rate (CAGR) of 3.3%. IDC believed that the two main catalysts for continued growth are bringing first-time users onto a smart phone and maintaining life cycles that are close to two years. At the end of 2016, IDC estimated that about half of the world's population was using a smart phone, which leaves plenty of room for additional first-time users. And, despite very high saturation levels in mature markets like North America, Western Europe, Korea, and Japan, IDC still sees the majority of users replacing their handsets roughly every two years and IDC expects these trends will hold through the forecast.

From market perspective, phones are now increasingly capable and remain good enough for longer and this will extend the replacement cycle of smart phones and consumers are not compelled to upgrade quickly and the market showed a more mature growth pattern. For 2018, the handset market will continue to be very dynamic and we believe that it will be a very tough year and continued last year's trend of no growth. As mentioned above, Asia segment has remained the Group's core performance contributor, and China is the focus of Asia segment. China, the world's largest smart phone market in the world and was often perceived as an emerging market, is now actually similar to other mature markets in Europe and North America and becomes mature and heavily penetrated. With the saturated smart phone market, competition among Chinese vendors will become fiercer and the rapid shift among certain Chinese OEMs may impact overall demand visibility of the Group's end markets and future demands of the products that the Group will manufacture and the services that the Group will provide. The Group's customers are striving for getting larger market share in the saturated market and the pricing of their products in the end market have to be very competitive and ASPs (Average Selling Price) kept decreasing and they in turn always ask the Group for price down. In order to get adequate allocations from the customers and compete against peers squabbling for the same handset pie, the Group has to accept and this is a common business dynamic and the gross margin is destined to be under huge pressure.

IDC saw China as a replacement market-where consumers would upgrade to better gadget, while other emerging markets might still be of first-timers, where consumers would try the basic models of smart phones and reports indicated that the aggressive entry of Chinese brands to emerging markets like India has prompted many first time Indian smart phone users to upgrade to these smart phones-affordable but with better specs. Despite feature phone users would still find smart phones costly and consumers from this category would keep hunting for products with attributes like long battery life and durability. Chinese smart phone manufacturers have kept expanding India wide and very rapidly diffuse their products in India capturing a sizable market share of the emerging market and replacing the domestic players to the back seat. These vendors are expanding beyond China, noting they are well positioned to serve emerging market demands for high-end and mid-range and low-end smart phones through utilising manufacturing cost advantages, nurturing their channels, spending on marketing, making their differentiators around technology, and positioning abundantly clear to consumers. Mobile manufacturers have opportunities to penetrate lower tier segments in regions such as emerging Asia/Pacific and EMEA (Europe, Middle East and Africa) markets, capitalising on the remaining shift from feature phones to smart phones and benefit from increased demands for affordable smart phones. While affordability is a key engine of the remaining smart phone market growth, channel strategy and knowledge of local consumer market dynamics have become increasingly important. With domestic smart phone shipment growth slowing down, the major factor for all these Chinese OEMs will be how they manage to expand their reach outside of their own countries as in international markets, premium quality very soon devolves into price competition. The Group has helped these Chinese brands to expand aggressively and internationalise rapidly in overseas markets, and these customers want to leverage on the Group to extend their footprints in India and other emerging markets. Since 2015, given the Group's leading industry experience in managing Indian operations and broad service offerings that cover almost every part of the value chain, the Group has been expanding its local manufacturing service and component supply chain support in India to benefit from the Indian Government's "Make-in-India" initiatives, and can address both the domestic Indian market and export demands. The Group announced in January 2018 that the Group decided to make a capital injection of about US$100 million to cater for business expansion there and the additional working capital needed. The Group's core strategy is to establish and maintain long term relationships with leading companies in expanding businesses in terms of new products and new markets with the size and growth characteristics that can benefit from highly automated, continuous flow manufacturing on a global scale.

From product perspective, with the diffusion of innovation and technology, smart phone industry has been already commoditised and highly homogenous products with standardised specs have increased the competition in the market as it got more fragmented and modular structure of the industry has lowered the barriers for the new entrants to enter the market. According to IDC, it witnesses a shift in many phone makers' portfolios geared towards affordable devices with high specifications and premium-type styling compared to flagship models and phone makers have started to implement a single premium design language that ultimately blurs the lines between the high end and the low end and now low end and mid-range smart phones basically own all the functions and features of high end smart phones and this allows the average consumer to jump on the brand without a hefty upfront investment and this poses huge pressure to gross margin of phone manufacturers. Phone manufacturers must be on their feet to think of different ways to engage consumers and cater to those replacement users' changing needs. But it is a fact that tangible advances to smart phones have slowed in the last few years and smart phones become growingly homogeneous. As the smart phone matures as an application, the push to innovate its design and features and appearances increases rapidly and innovations in the smart phone cover glass and smart phone casing is an emerging fundamental to keep driving the consumer demand for smart phones. The advantages provided by metal are thinner and lighter smart phone design and sturdier support for big screens. Metal casing manufacturing is core competence of the Group and we have to continue to invest in the future and devote efforts and resources on development of engineering capabilities and new technologies and solutions (like new innovative materials). But it is inevitable that gross margin of casing sales is deteriorating as there are surplus capacities in mechanical business industry sector as a result of excessive investments in mechanical capacities in previous years by industry players.

As smart phone industry is dynamic and highly competitive, slower growth could bring about industry consolidation, potentially pressuring the supply chain. To address above challenges and uncertainties and to alleviate the impact of price erosion to gross margin erosion, the Group has to remain lean and be quick in making business and operational decisions and the cycle time of new product development has to be short so that products can be developed in a quick manner to align with the product launch schedule of customers and shorten the time to market. Despite of the increase of revenue due to increase in system assembly business, there has been pressure to gross margin. The Group will continue with the challenging customer mix transition and the concentrated efforts to diversify customer base by developing more businesses with the Chinese brands as well as other emerging players in the market, and will continue to devote resources to enhance its core competences and R&D capabilities, remain agile and competitive in providing its customers with differentiated contributions to their supply chain and overall business. On the operation side, the Group will continue to improve efficiency by enhancing control over labour cost, overheads, scraps, operating expenses, idle assets and monitoring capacity and utilisation and supply chain and material management and quality control and management. The Group's automation engineering team will further increase automation coverage ratio across different manufacturing process. After a few years of efforts in improving efficiency and yield and remaining lean and agile, these initiatives could enable the Group to be more flexible in running even low-volume / high-mix businesses. The Group is now able to handle more high-mix and small volume orders. All these initiatives aim to improve yields and efficiencies and the speed of the cost down initiatives has to be quicker than the speed of price erosion.

To meet its customers' increasingly sophisticated needs, the Group has continuously engaged in product research and design activities which are necessary to manufacture its customers' products in the most cost-effective and consistent manner, and focused on assisting its customers with product creation, development and manufacturing solutions and further strengthen ODM competence. The Group has dedicated PD (product development) / PM (product manufacturing) and R&D team who have developed a full range of smart phone and feature phone product with innovations in industrial design, camera and audio application to differentiate FIH product from market competition and enables the Group to penetrate global mobile market share and the Group has fully utilised Hon Hai group strength for vertical integration for product creation. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Group, which offers scale, solid experience and control in key components) are especially attractive for Chinese brands. The R&D team will continue to innovate on industrial design, image and audio quality and user experience and invest on 5G and AI technology and innovate in existing and new mobile product and to focus on user experience in social media and establishment of ecosystem. BTW, the R&D team leverages the entire product portfolio of mobile device and wearable to address the opportunity for consumer IOT market and differentiate the IOT products with advanced voice user interface, better audio and video feature to win over competition. The Group had achieved great business result for mobile phone (including feature phone and smart phone) and further investment in R&D of new technology would help to ensure company to get future business momentum and identify and address the changing demands of customers, industry trends and competitive forces. On 13 December 2017, the Group announced that it has proposed to incorporate wholly foreign-owned enterprise tentatively known as 富智康(南京)智能科技有限公司 (FIH (Nanjing) Intelligent Technology Co., Ltd.*) with capital injection in an aggregate amount of approximately US$120 million. The principal activities of 富智康(南京)智能科技有限公司 (FIH (Nanjing) Intelligent Technology Co., Ltd.*) are proposed to be the development, testing, system integration and provision of application services and related technological services for handset-related software and hardware.

As a whole, slower growth and market saturation could bring about industry consolidation which can result in larger and more geographically diverse competitors who have significant combined resources with which to compete against the Group. As competition remains fierce, competition from EMS/ODM/OEM peers is deemed to intensify to create pressure on the Group's business and there may be slower new customer gain with rapidly growing smart phone vendors. The Group also faces competition from the manufacturing operations of its current and potential customers, who are continually evaluating the merits of manufacturing products in-house against the advantages of outsourcing. All of these developments could potentially cause pressure on the Group's sales and the sales mix and margin, loss of market acceptance of its services, compression of its profits or loss, loss of its market share and all the challenges drive the Group to make continuous improvements.

There are the needs to continue to put effort to control BOM (Bill of Material) costs and operating expenses. As smart phone brands will be raising hardware specifications of their products, they are also revealing their intentions to build up their inventories in advance. High prices of AMOLED panels and memory components during 2017 have constrained smart phone players' ability to attain greater profits.

But the biggest challenge is the new phone manufacturing and distribution business relating to the Nokia-branded products. At this stage, the Nokia-branded products primarily comprise feature phones and smart phones. The Group's strategic partner HMD obviously needs time to promote, develop and prove itself in the competitive handset market (especially for smart phones) and it has to invest into portfolio competitiveness to secure that they can get share of the very competitive market. Current volumes are too low to drive any economies of scale. HMD has to invest in quality and secure product quality and durability and consumer experience, strong retailer penetration, effective channel strategy, differentiated and diversified products portfolio, effective marketing initiatives and increasing brand awareness among mass-market consumers, all of which will increase costs of HMD running the Nokia-branded phone business. In order to penetrate the market and capture market share in the beginning, the pricing of the Nokia-branded phones has to be very competitive and aggressive and cannot be sold at prices higher than those adopted by its competitors in respect of similar products. In addition, Nokia-branded phones also need to have better hardware and specifications than competitors' products of similar selling pricing so as to induce consumers to switch to the Nokia-branded phones and this will inevitably increase bill of material costs of phones. These posed huge pressure to the selling price and gross margin of phones made for HMD. As the strategic partner and exclusive supplier of HMD, the volume of the new business and the related margins will largely depend on success of HMD in its Nokia-branded products business and the Group's gross margin of the new business is subject to extremely huge pressure at the early stage when the selling price of phones to HMD has to be very aggressive and before scale can be built up and components and parts can be purchased at better prices. But commodity price increase is beyond control of the Group and in 2017, commodity prices of major components like memory have increased. When volumes go up, with the joint efforts of design engineers and sourcing teams, it is expected that the Group will have more bargaining power on procurement and pricing of some key components can be lowered gradually and the gross margin performance will gradually improve. Of course, these need time to be accomplished in a highly competitive market and HMD needs to persistently devote effort in order to gain market shares while commodity prices increase is to some extent beyond the Group's control.

In terms of 2017 smart phone manufacturing quantity, it has reached a satisfactory level in their first year of business and we are scaling up our smart phone operations in 2018 based on our learnings in 2017 and the Group's 2018 volume ambition is to continue to grow smart phone. Feature phone shipment has steadily climbed quarter on quarter throughout 2017 and HMD has regained market share in some major markets and in the MWC (Mobile World Congress) held in Barcelona in February 2018, apart from receiving favorable feedback from customers and industry partners, HMD also received a lot of awards which were mostly for smart phones and this demonstrated the quality and performance of phones designed and manufactured by the Group. The Group will continue innovating feature phone business. Feature phone market is declining over 10% year-of-year but remains profitable business opportunity for us and we are expanding feature phone offering to cover 4G radio technology and we aim for volume share leadership in near future. For phone distribution business, we are starting year 2018 from a good position as we now have larger distribution footprint and positive consumer reaction to smart phone introduced in 2017 and we improve our offering based on consumer feedback.

Once HMD has established foothold in the market in future, it can experiment with some premium on some product segments. It is now at the early stage to build up the product line and it is a process where it needs time to accumulate demand with marketing and public relations positioning against competition. The Group anticipates good revenue growth in 2018 by expanding the portfolio down to lower price points where we saw good traction already in 2017 and investing on markets where Nokia brand had good response. Next generation of Wave 1 product portfolio will drive further growth. The Group has to invest in the future and is looking at a long-term prospect of the new business operated by TNS and the Nokia-branded phone manufacturing business.

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

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

Apart from its existing business, the Group is dedicated to exploiting new business by establishing strategic partnerships (such as the collaboration with Nokia and HMD as mentioned above) and making equity investments, which are expected to be funded by cash generated from the Group's operations and the cash on hand. Currently the group draws down and repays short term loan on regular basis based on operation needs and it is envisaged that there will be no fund-raising activities in capital market for 2018.

Looking ahead, the Company understands the tremendous challenges in 2018. In response, the Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to cope with all these challenges and uncertainties from time to time as well as to maintain and enhance its performance.

On the basis of a preliminary review of the Group's latest unaudited management accounts and other information currently available, the Company understands that the Group is likely to record a consolidated net loss for the six-month period ending 30 June 2018 (the Group recorded a consolidated net loss of US$199,076,000 for the six-month period ended 30 June 2017), primarily as a result of various factors, including the factors mentioned in "Review of Results and Operations — Financial Performance" above. The Company expects the costs relating to the new business operated by TNS to continue into 2018 and the gross margin erosion pressure will continue. At this stage, on the basis of a preliminary review of currently available information, the Company expects the Group to record a consolidated net loss for the first half of 2018, but it is currently unable to reasonably and meaningfully estimate the likely magnitude of any such loss. The Company will make further announcement in compliance with the Listing Rules and/or the SFO, as appropriate.

The Company's shareholders and potential investors should note that the Company is in the process of reviewing the Group's consolidated interim results for the six-month period ending 30 June 2018. The information in this announcement is the result of a preliminary assessment by the Company's management based on the Group's latest unaudited management accounts and other information currently available. That information is subject to possible adjustments following further internal review, and is not based on any figure(s) or information which has/have been reviewed by the Company's auditors or audit committee. The Group's unaudited 2018 consolidated interim results and other related details will be disclosed in the Company's 2018 interim results announcement, which is tentatively scheduled to be published in August 2018.

In the meantime, pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose in due course (which is expected to be in or about May 2018) certain unaudited consolidated financial information of the Group for the three months ending 31 March 2018, and simultaneously upon such disclosure in Taiwan, the Company will announce the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan.

The Company wishes to take this opportunity to reiterate that the Group's quarterly performance may fluctuate (possibly significantly) as a result of a number of factors. For example, performance over certain periods may vary as a result of a combination of the seasonality of sales, factors relating to the supply chain (e.g. components prices and sourcing and availability) and to inventory (e.g. accumulated inventory may take time to clear), and customers' product launch or product recalibration strategies and market competitiveness. Other factors (including, but not limited to, general industry and economic conditions, money market and capital market changes, shifts in customer demands, sales mix changes, commodity price changes, technology advancement, and legal/regulatory/government policy changes) can also give rise to uncertainty. For example, the Group's financial exposure to market volatility (e.g. RMB appreciation and weak USD and other currency volatility and foreign exchange gains and losses, interest rate hike, stock market volatility) can result in gains or losses; likewise with respect to any future impairments of property, plant and equipment, goodwill or intangible assets and equity investments, and cash positions of investee companies and the timing of dispositions of equity investments and the implications of adoption of new accounting standards and resulting profits/losses, and the performance of the Group's associates and its share of those associates' profits/losses, new tax laws, renewing or meeting the conditions of any tax incentives and credits, and the timing of receipt of incentive income, can all (individually and collectively) affect quarterly performance.

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

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 14 May 2018 to Friday, 18 May 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 11 May 2018.

CORPORATE GOVERNANCE

The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2017 to 31 December 2017.

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

However, during the financial year ended 31 December 2017, Mr. TONG Wen-hsin, the Company's former Chairman and former Executive Director, had resigned from his positions within the Company with effect from 1 January 2017. Upon Mr. Tong's resignation, the Company has not been able to comply with the code provision contained in paragraph A.2.1 of the CG Code. The reasons for such deviation are set out below.

Since the resignation of Mr. Tong as the Chairman of the Company, the Company has been searching for the right candidate to fill the position of Chairman of the Company. However, given the importance of the role, the Board expects that it may take some time before the Company is able to find a suitable candidate to fulfil the role of Chairman. In light of the tremendous market challenges and the current uncertainties relating to the vacancy of the Chairman role, the Board considered that experienced leadership was of utmost importance and has resolved to adopt an interim arrangement by appointing Mr. CHIH Yu Yang, the current Chief Executive Officer, to act as the Acting Chairman with effect from 1 January 2017. Mr. Chih has been the Company's Executive Director and Chief Executive Officer since 28 August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive knowledge and experience in both the Company and the industry. The Board believes that this interim arrangement not only is crucial to the continuation in the Group's implementation of business plans and formulation of business strategies, but also serves to avoid unnecessary speculation, confusion and instability that may be caused to the Group's shareholders, investors, customers, suppliers and business partners worldwide, thereby allowing the Company to have sufficient time for the selection and appointment of the replacement Chairman of the Company. During the year, the Company had continued its search for the right candidate to fill the position of Chairman of the Company and had considered the suitability and appropriateness of certain distinguished candidates. However, the Company was not able to identify the right candidate and it will step up its search efforts in 2018. Although the interim arrangement deviates from the relevant code provision, the Board considers that the interim arrangement will not impair the balance of power and authority between the Board and the management of the Company as three out of the eight Board members are the Independent Non-executive Directors and the Board meets regularly to consider major matters affecting the operations of the Group and all Directors are properly and promptly briefed on such matters with adequate, complete and reliable information. Furthermore, the Board believes that the circumstances justify the bases for adopting the interim arrangement which is in the best interest of the Company and its shareholders as a whole. In the spirit of better corporate governance, the Board will periodically review the effectiveness of this interim arrangement (and introduce further measures, if necessary) and, through the Company's nomination committee, will continue to use its best endeavours to find a suitable candidate to assume the duties as Chairman of the Company as soon as reasonably practicable thereby separating the roles of chairman and chief executive as prescribed under the code provision contained in paragraph A.2.1 of the CG Code.

The Company has adopted 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, in particular, the Board (with the recommendation from the Company's corporate governance committee) adopted on 8 December 2017 (among other things) the revised list of matters reserved for the Board.

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 2017.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

AUDIT COMMITTEE

The Company has established and maintained an audit committee in accordance with the requirements of the Listing Rules, particularly the CG Code. Its primary duties are to review the Group's financial reporting process and internal control and risk management system, nominate and monitor external auditors and provide advice and comments to the Board. The audit committee comprises three independent non-executive directors (among whom one of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules).

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017 and the annual report 2017 of the Company and recommended the same to the Board for approval.

DISCLOSURE OF INFORMATION ON WEBSITES

The annual report 2017 of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and made available on the websites of the Stock Exchange and the Company respectively in due course.

DEFINITIONS

"Annual General Meeting"	the annual general meeting of the Company to be held at Kowloon Room I, Mezzanine Level, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Hong Kong on Friday, 18 May 2018 at 10:00 a.m. or, where the context so admits, any adjournment thereof

"Board"	the board of directors of the Company
"CG Code"	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Company", "we" or "our"	FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Manual"	Corporate Governance Compliance Manual
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China
"Share(s)"	ordinary share(s) with a nominal value of US$0.04 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of the United States of America

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 8 March 2018

* *For identification purpose only*

As at the date of this announcement, the Board of the Company comprises four executive directors, namely Mr. CHIH Yu Yang, Mr. WANG Chien Ho, Mr. HUANG Chin Hsien and Mr. YU Mingjen; one non-executive director, namely Dr. LUO Zhongsheng; and three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih.