FIH 富智康

FIH Mobile Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

2016 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

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

EXECUTIVE DIRECTORS

CHIH Yu Yang *(Acting Chairman and Chief Executive Officer)*
WANG Chien Ho
HUANG Chin Hsien *(Note)*
LUO Zhongsheng *(Note)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming
TAO Yun Chih

COMPANY SECRETARY

LAW Sai Hay

REGISTERED OFFICE

P. O. Box 31119 Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman
KY1-1205 Cayman Islands

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Clifford Chance, Hong Kong
Freshfields Bruckhaus Deringer, Hong Kong
Latham & Watkins, Hong Kong
Mayer Brown JSM, Hong Kong

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

STOCK CODE

2038

Note: Mr. HUANG Chin Hsien and Dr. LUO Zhongsheng have been appointed as executive directors of the Company with effect from 31 March 2017.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The first half of 2016 was very challenging for the Group. Coupled with the financial turmoil of China and global economic uncertainties in early 2016, the customer transition and disengagement resulted from the change in customers' outsourcing strategies and market share reshuffle in the highly competitive handset market led to dramatic decline in sales to some major customers and created negative impact to our business.

We were blessed by the right decision made in previous years to devote resources to the growing segments and focus on Chinese customers who have exhibited significant market growth in recent years. There has been a noticeable slowdown in smart phone shipments with China showing a more mature growth pattern. Our efforts in working with our Chinese customers were essential to their scale-up expansions and our supply chain management competitiveness enabled their sky-rocketed volume hype. Chinese brands have emerged and now three Chinese brands ranked within the top five worldwide smart phone vendors.

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 and has helped certain Chinese customers to develop business and grab more market shares in India. We expect the Indian manufacturing business will continue to see healthy growth in 2017.

With the subsequent stabilisation of global and Chinese economy in the second quarter of 2016, we saw business improvement generated from these initiatives and sales in the second half of 2016 witnessed growth. With more gross margin generated from increase of sales in the second half of 2016 and the increase of other income (including foreign exchange gain), the Group's net profit improved in the second half of 2016.

As a whole, revenue for the year 2016 was US$6,233 million, which represents a decrease of US$1,218 million or 16.3%, when compared with the prior year's revenue of US$7,451 million. Profit for the year 2016 attributable to owners of the Company was US$138 million, when compared with that for the prior year of US$229 million. Basic earnings per share for the year 2016 were US1.77 cents.

In November 2016, the Group completed an important acquisition deal with Microsoft Mobile Oy and acquired its Vietnam facility and certain other assets utilised in the conduct of its feature phone business, and also, in December 2016, the Group's collaboration with Nokia Technologies Ltd. ("Nokia") and HMD global Oy ("HMD") was officially implemented with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets.

CHAIRMAN'S STATEMENT

Price erosion pressure and competition from peers are always in the handset manufacturing market. To differentiate from our competitors, our end-to-end handset manufacturing services solutions, which have long been appreciated by our customers, were critical in winning businesses in such challenging market environment. We had taken actions to remain lean but agile and control our manufacturing and operating expenses and rationalised our cost structure which enabled us to respond to challenges in a dynamic market. We committed to dedicate resources on automation into our operations to enhance our productivity and yield and competitiveness. High-end smart phones continued to pursue appealing industrial designs with disruptive features as their selling points, while mid to low-end smart phones tended to adopt high specifications but with a more affordable price. These customer requirements posed opportunities and challenges to us. With commitment to dedicate resources to our R&D (research and development) and manufacturing capabilities, we demonstrated proven competency to develop differentiated and customised solutions for the customers and gives the Group natural advantages. New customer development efforts will continue and we believe we are well positioned, coupled with the strategic partnerships with Chinese customers, to continue driving the growth into 2017.

Looking ahead, the slowdown of China's economy will undoubtedly contribute to a bumpier financial environment, but it is still anticipated to be the largest contributor to global growth as its economy transits to higher value adding manufacturing services and becomes more consumer-driven. The Group has to make continuous improvement and remain competitive. We aim to better serve our strategic customers by not only offering hardware, integrated design and manufacturing, software development and supply chain management services, but also broadening our scope of end-to-end service platform to other parts of the value chain like after-sales services and fulfilling our obligations as an environmental-friendly corporate organisation.

Amid the downturn of economy and business in the first half of 2016, the Group's entire staff have performed their roles vigilantly and worked diligently and strived hard to meet the headwinds during bad times and minimised the negative impacts to the Group. For this, I would like to extend my gratitude to the management and all staff. Many thanks to the customers', shareholders', business partners' and the board of directors' support to the management team in the past year. We aim to continue to execute well and deliver even better results in the years to come.

With best regards,

CHIH Yu Yang
Acting Chairman

Hong Kong, 9 March 2017

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

CHIH Yu Yang (Mr.), Chinese (Taiwan) and aged 58, was appointed as the Acting Chairman of the Company effective 1 January 2017. He joined the Company as an executive director in August 2009. He is also the chief executive officer and the chairman of the corporate governance committee respectively of the Company. Mr. Chih is a director of Chiun Mai Communication Systems, Inc. ("CMCS"), a subsidiary of the Company in Taiwan which is the primary mobile handset design services arm of the Group. Mr. Chih joined the Group in 2005 when the Group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. He is also a director of certain other subsidiaries of the Company, namely Evenwell Digitech Inc., Executar International Limited, FIH Technology Korea Ltd., Greater Success Investments Limited and Transworld Holdings Limited respectively. He has 37 years of extensive experience in the communication industries. From 1997 to 2001, Mr. Chih was the vice president and general manager of Communication B.U. in BenQ (formerly Acer Communication and Multimedia, Inc.) where he was responsible for BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hua University in Taiwan in 1980.

Wang Chien Ho (Mr.), Chinese (Taiwan) and aged 57, joined the Company as an executive director on 7 June 2016. He was appointed as a member of the corporate governance committee of the Company effective 1 January 2017. Mr. Wang joined the Company as director of electronic parts manufacturing and SMT and system assembly in June 2004. Before joining the Company, Mr. Wang joined the Hon Hai Group (comprising of 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only) ("Hon Hai"), its subsidiaries and associates (collectively, the "Hon Hai Group")) in June 1996 as an operation manager. He was then responsible for SMT and mother board manufacturing in Czech Europe as director of factory operation in 1999. In 2004, he was responsible for setting up a new factory of PCBA and engine production in FIH Europe in Hungary. Mr. Wang was promoted to a vice president responsible for ODM (original design manufacturing) operation in Shenzhen, China in 2007. From 2009, he has started to be based in northern China. Mr. Wang is an employee of the Hon Hai Group. He is also a director of certain subsidiaries of the Company, namely 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only) and 衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd for identification purposes only) respectively. Mr. Wang also serves as a director of ShunSin Technology Holdings Limited, a limited liability company incorporated in the Cayman Islands and whose shares are listed on the Taiwan Stock Exchange Corporation. He has over 30 years of extensive experience in manufacturing operation and engineering management. Mr. Wang obtained a Bachelor degree in Electronics Engineering from Feng Chia University, Taiwan in 1982.

LAU Siu Ki (Mr.), Chinese (Hong Kong) and aged 58, joined the Company as an independent non-executive director in December 2004. He is the chairman of the audit committee, remuneration committee and nomination committee respectively of the Company. He has over 35 years of experience in corporate finance, financial advisory and management, accounting and auditing. Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. Mr. Lau was a member of the World Council of ACCA from 2002 to 2011 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. Mr. Lau also serves as an independent non-executive director of Binhai Investment Company Limited, China Medical & HealthCare Group Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited and Samson Holding Ltd., whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also an independent supervisor of Beijing Capital International Airport Co., Ltd., whose shares are listed on the Stock Exchange. Mr. Lau also serves as company secretary of Yeebo (International Holdings) Limited, Hung Fook Tong Group Holdings Limited and Expert Systems Holdings Limited (whose shares are listed on the Stock Exchange). He resigned as an independent non-executive director of UKF (Holdings) Limited, whose shares are listed on the Stock Exchange, effective 15 March 2016. Mr. Lau also resigned as an independent non-executive director, effective 24 October 2016, of TCL Communication Technology Holdings Limited, whose shares were delisted on the Stock Exchange, effective 30 September 2016.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Daniel Joseph MEHAN (Mr.), American and aged 72, joined the Company as an independent non-executive director in July 2007. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. He was the chief information officer of the Federal Aviation Administration from 1999 to 2005. Prior to that, Dr. Mehan was senior level executive who held a variety of leadership positions at AT&T for over 20 years, including international vice president and international chief information officer. Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development. Dr. Mehan received both his Ph.D. in Operations Research and Master of Science in Systems Engineering from University of Pennsylvania, US.

CHEN Fung Ming (Mr.), Chinese (Taiwan) and aged 70, joined the Company as an independent non-executive director in November 2008. He was appointed as a member of the audit committee, remuneration committee and nomination committee respectively of the Company effective 29 May 2016. Mr. Chen is the chairman of ProLight Opto Technology Corp. in Taiwan which provides high power LED packaging for lighting application. From 2006 to 2008, Mr. Chen was a director of Beyond Innovation Technology Corp. in Taiwan specialising in IC design for video application. He has extensive experience in the electronics and lighting industries. Mr. Chen obtained a Bachelor of Science degree in Physics from Fu Jen Catholic University in Taiwan in 1970. He also received from the University of Wisconsin-Madison, US, a Master of Science degree in Physics and a Master of Science degree in Computer Science in 1974.

TAO Yun Chih (Mr.), Chinese (Taiwan) and aged 43, joined the Company as an independent non-executive director on 9 March 2017. Mr. Tao is the vice president, business partnerships in Next Entertainment (HK) Ltd., which is a start-up focusing on providing global leading pan-entertainment live streaming platform and related eco-system. Before this, he was the general manager of LINE Taiwan as well as the director and general manager of LINE PAY Taiwan (both belonging to the South Korean internet search giant whose business is mainly associated with the development of mobile applications and internet services). He has over 15 years of experience in start-up, growth, management and consulting, and particularly deep insights in internet development, mobile application industry, emerging market evangelism, and digital trend. Mr. Tao received a Bachelor of Science degree in Physics from National Taiwan University, Taiwan in 1996 and a Master of Science degree in Environmental Engineering from National Taiwan University, Taiwan in 1998.

For the additional two executive directors of the Company, Mr. HUANG Chin Hsien and Dr. LUO Zhongsheng, whose appointments have become effective from 31 March 2017 as well as the retirement of Mr. CHEN Fung Ming as independent non-executive director of the Company at the forthcoming annual general meeting of the Company, please refer to the Company's announcement dated 31 March 2017 and circular dated 13 April 2017 for more details.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Dr. CHANG Pe Ter, Peter (Mr.), Chinese (Taiwan) and aged 57, joined the Company as senior manager of mechanical parts production in December 2008. Dr. Chang, current position as senior director, manages mechanical parts business at Lang Fang site. Before joining the Company, Dr. Chang was with Enlight Corporation since September 2002 and with the responsibility of mechanical parts of laptop/handset business development and manufacturing. Prior to that, Dr. Chang held various production and engineering management positions with the automobile industry. He has over 26 years of experience in engineering and cross functional management. Dr. Chang is also a director of certain subsidiaries of the Company, namely Extra High Enterprises Limited, 富智康精密組件(北京)有限公司 (FIH Precision Component (Beijing) Co., Ltd. for identification purposes only), FIH Precision Electronics (Lang Fang) Co., Ltd., Grand Champion Trading Limited, Honxun Electrical Industry (Hangzhou) Co., Ltd., 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only) and Transworld Communication Systems Inc. respectively. He is also a director of Ways Transworld Inc. (a joint venture of the Company). Dr. Chang also serves as a director of Ways Technical Corp., Ltd., a limited company incorporated in Taiwan and whose shares are traded on the Taiwan OTC Exchange. He received a Ph.D. degree in Mechanical Engineering/Materials from University of Massachusetts at Amherst, US in 1992.

HSIUNG Nai-Pin, Paul (Mr.), Chinese (Taiwan with US nationality) and aged 53, joined the Company as director of business development in January 2003. He is responsible for after-market-service in America region since 2012. Prior to that, Mr. Hsiung held various functions and positions in mobile phone industry with the Company. From 2003 to 2008, he was responsible for business development and project management in Florida, US. Then he was responsible for mobile phone design and development, and also product manufacturing at both Florida, US and Lang Fang, China from 2009 to 2012. Before joining the Company, Mr. Hsiung was a director of international marketing at Test Research, Inc. (a Taiwan listed company) for 8 years. Mr. Hsiung is also a director of certain subsidiaries of the Company, namely Excel Loyal International Limited, FIH Mexico Industry SA de CV, FIH (Tian Jin) Precision Industry Co., Ltd., Prospect Right Limited, S&B Industry, Inc., SP International, Inc., Sutech Holdings Limited and Sutech Industry Inc. respectively. He obtained a Bachelor degree of Applied Physics from Tamkang University, Taiwan and a Master degree of Computer Science from New York Institute of Technology, US.

TAM Kam Wah, Danny (Mr.), Chinese (Hong Kong with British nationality) and aged 53, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief financial officer of the Company. He is responsible for accounting and internal and external financial reporting, financial planning, taxation, investment management, internal control, investor relations, corporate governance, risk management and performance review of the Group. Mr. Tam has over 29 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. He is also the statutory auditor of FIH Technology Korea Ltd., a subsidiary of the Company in Korea. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd. (now known as China Oceanwide Holdings Limited) and he also worked as an accounting manager for Coates Brothers (HK) Co., Ltd. Mr. Tam is a fellow of the Taxation Institute of Hong Kong and an associate of Hong Kong Institute of Certified Public Accountants. He is also a certified tax adviser. Mr. Tam received a BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University, the People's Republic of China (the "PRC") in 2005.

CHEN Hui Chung, John (Mr.), Chinese (Taiwan) and aged 55, joined the Company as senior director of finance division in August 2013. He is responsible for treasury, financial investment and financial risk management of the Group. Mr. Chen has over 27 years of experience in finance areas in Taiwan listed companies. Before joining the Company, he was the chief financial officer of Taiwan Synthetic Rubber Corp and Wan Hai Lines Ltd. respectively. Mr. Chen received a Bachelor of Transportation and Communication from National Cheng Kung University, Taiwan in 1983 and a MBA from University of California Irvine, US in 1987.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") is pleased to announce the annual report incorporating this report of the directors, particularly the audited consolidated results of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the consolidated financial statements on pages 132 to 134. The Group is a vertically integrated manufacturing services provider for handset industry worldwide. It provides a full range of manufacturing services to its customers in connection with the production of handsets.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated financial statements on page 57.

BUSINESS REVIEW

Important

The Group's consolidated final results for the year ended 31 December 2016 as set out in the annual report 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.

This report of the directors contains forward-looking statements regarding the Company's expectations and outlook of the Group's business operations, opportunities and prospects. Such forward-looking statements do not constitute guarantees of the future performance of the Group and are subject to factors that could cause the Group's actual results to differ (possibly materially) from those expressed in the forward-looking statements. These factors may include, but not limited to, general industry and economic conditions, shifts in customer demands, 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 on the Stock Exchange (the "Listing Rules").

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

REPORT OF THE DIRECTORS

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation), and a leader for the handset industry worldwide as a vertically integrated manufacturing services provider offering a comprehensive range of end-to-end components and manufacturing and engineering services to its customers in respect of handsets and other wireless communication devices, which include unique product development and design, casings, components, full-system assembly etc and repair and other after-sales services. The Group has been using the business model of eCMMS (e-enabled Components, Modules, Moves and Services), and has successfully transformed its business model from OEM (original equipment manufacturing) to ODM (original design manufacturing) and IDM (integrated design and manufacture) by providing one-stop shopping end-to-end service of its competencies in mechanical, electronic and optical capabilities altogether. The Group works with its customers to develop their future products in accordance with their manufacturing requirements and product specifications, and aligns its investment in technology enhancement and R&D (research and development) activities to implement such requirements and specifications. The Company believes that a wider service platform, especially with high value-added contribution, could differentiate the Group from its competitors. The Group has strived to provide its customers with not only manufacturing support, but also a full range of cost-competitive services including repair, logistics and distribution services, and the Company believes that this strategy differentiates the Group from its competitors and will help to support its customers' products during their entire life cycle and reduce the time required to bring the products to market. In addition to handsets, the Group has been actively exploring opportunities in other wireless communication devices and related areas, such as wearable devices and mobile internet services.

Discussion and Analysis

Key Relationships with Customers, Suppliers and Employees

The Group's major customers include top international brands and Chinese brands, and accordingly, the Group has operations, R&D centers and manufacturing facilities spanning Asia-Pacific region (e.g. China, Taiwan and India) and the Americas which are located close to its customers to better facilitate their respective local needs and enable such customers to accelerate the launch of their products to market. With customer transition, ongoing customer diversification efforts and further penetration of existing customers, there has continued to be a more healthy change in customer mix. Amongst the Group's five largest customers during the year ended 31 December 2016 which accounted for approximately 66.55% of the Group's total revenue during such year, four of them have long and well established relationships with the Group and individually has been its customer for over five years. For the remaining major customer, it has been the Group's customer for over two and a half years. The Group values the mutually beneficial relationships with its customers by providing high quality products and services to them at competitive prices, and continues to prolong and develop closer relationships with them for mutual benefit of the Group and such customers in the long run. The credit period granted to the Group's major customers are 30 to 90 days which is in line with those granted to other customers. The allowance for doubtful debt made for the year ended 31 December 2016 was US$0.7 million (when compared to that for 2015 of US$0.001 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 handset manufacturing, with the aim to sourcing materials with competitive prices. Purchases from the Group's five largest suppliers accounted for approximately 33.67% of the Group's total purchases for the year ended 31 December 2016. For details, please refer to the "Supply Chain Management" section of the Environmental, Social and Governance Report, which forms part of this report of the directors.

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

Employees are valuable assets to the Group and the Group has been working diligently in attracting and retaining talents. The Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified employees by offering more equal employment opportunity, competitive compensation and benefits, more favourable working environment, broader customer reach, bigger scale in resources, training and job rotation, coupled with better career prospect across many different product and business lines. The Group prides itself on providing a safe, effective and congenial work environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been implemented to ensure its working environment is healthy and safe. The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, development, rewards, and retention. The Group has built and will continue expanding large and experienced R&D teams in China and Taiwan as it has foreseen significant opportunities for business growth by investing in R&D on top of its strong manufacturing and engineering capabilities to implement and execute the corresponding R&D requirements. The Group 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. As at 31 December 2016, the Group had a total of 74,652 (2015: 81,013) employees. Total staff costs incurred during the year 2016 amounted to US$407 million (2015: US$354 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. The Company has adopted a share scheme and a share option scheme respectively. The share option scheme complies with the requirements of Chapter 17 of the Listing Rules. The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Company's performance, their duties and responsibilities with the Company, their contributions to the Company and the prevailing market practice as well as the recommendations from the Company's remuneration committee. For details, please refer to the "Human Capital — The Group's Greatest Assets" section of the Environmental, Social and Governance Report, which forms part of this report of the directors.

Review of Results and Operations

Financial Performance

For the twelve-month period ended 31 December 2016, the Group recognised a consolidated revenue of US$6,233 million, representing a decrease by US$1,218 million or 16.3%, when compared to US$7,451 million for the same period last year. Net profit for the period was US$136 million, representing a decrease by US$93 million or 41%, when compared to US$229 million for the same period last year. The decrease in the Group's net profit is attributable to various factors, including the following principal factors: (1) lower demands from some of the Group's major customers as a result of (among other factors) customer transition thus resulting in lower sales of the Group's product, and decline in the Group's gross profit as a result of the decrease in sales, (2) lower service fees and molding sales from such customers, (3) a material loss arising from the write-off of the Group's property, plant and machinery, (4) an increase in the Group's income tax expense, and (5) an increase in the Group's total operating expenses, as more particularly described in the Company's profit warning announcement dated 3 October 2016 and announcement on additional inside information dated 9 February 2017. Gross profit for the period was US$342 million, representing a decrease of US$44 million from that for the same period last year as a result of the decrease in sales. Gross margin was 5.48% and was slightly higher than 5.18% for the same period last year, principally as a result of yield improvement, better cost control and efficiency enhancement.

Despite the efforts made by the Group to control operating expenses, in light of the negative factors as mentioned above, profit attributable to owners of the Company for the period was US$138.3 million, representing a decrease of about US$90.7 million from that for the same period last year, and the 2016 net profit margin was 2.22% which was lower than the 2015 net profit margin of 3.07% by 0.85%. Due to appreciation in U.S. dollars ("USD" or "US$") against all major currencies including RMB (Renminbi) to which the Group has the largest exposure, the Group recorded a foreign exchange gain of US$47 million in 2016 (when compared to US$49.6 million in 2015), which partially offset such negative factors.

To remain competitive, the Group has remained lean and controlled headcount and expenditures and managed to maintain operating expenses at a reasonable stable level of US$339 million for 2016, when compared with US$321 million for the same period last year. In particular, for the newly-acquired feature phone assets (including a manufacturing facility in Vietnam) from Microsoft Mobile Oy and the collaboration with Nokia and HMD in respect of Nokia-branded mobile phones and tablets as more particularly described in "Sales", "Investments" and "Outlook" below, the Group incurred start-up expenditures on the implementation and maintenance of necessary IT systems and applications, the recruitment of talents and the setting-up, activation and operation of a number of new entities in different locations together with the related consultancy fees, and such expenditures attributed partly to the increase in operating expenses.

As at 31 December 2016, 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 3.88%, when compared with the ROE as at 31 December 2015 of 6.11%, as the net profit attributable to owners of the Company decreased during the current period. The Group strives to achieve a better ROE.

Effective income tax rate during the period was 37%, representing an increase by 16%, when compared to 21% for the same period last year, mainly due to the fact that some subsidiaries of the Group incurred losses during the period and some profits generated by other subsidiaries of the Group have already utilised the accumulated tax loss in the last period.

Basic earnings per share for the period were US1.77 cents.

Dividends

The Board has resolved to recommend the declaration and payment of a final dividend of US$0.00526 per ordinary share of the Company (which in aggregate amounts to approximately US$42,000,000), and a special dividend of US$0.01252 per ordinary share of the Company (which in aggregate amounts to approximately US$100,000,000), respectively, for the year ended 31 December 2016, subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Details regarding the proposed declaration and payment of the final dividend and the special dividend are set out in the Company's circular dated 13 April 2017.

Sales

The Group started its business serving international brands by manufacturing feature phones. With the launch of smart phones and the subsequent popularisation which has driven smart phone outsourcing, the Group has benefited from the trend. In the past couple of years, there has been market share reshuffles between international brands and other market players (like Chinese brands), and the Group saw diverse performance across its customers and there was rapid shift among certain Chinese original equipment manufacturers. During the period, competition was intensified and the market shares of some of the Group's major customers declined quite dramatically following their lackluster performance in 2015 in the dynamic and competitive handset market, 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.

There was also soft demand and weakening momentum from some of the Group's other customers who lost market shares due to the fierce competition in the smart phone market. With the subsequent stabilisation of global and Chinese economy in the second quarter of 2016 — thanks to the development and penetration of the Chinese brand customers and the efforts of the Group's corresponding teams, there was gradual recovery and sales grew in the second half of 2016. In particular, there was a moderate year-on-year increase of sales to the Hon Hai Group.

In a slowing smart phone market where large players are experiencing growth saturation and there was a slowdown in smart phone shipments in 2016 with China showing a more mature growth pattern, emerging brands are disrupting existing brands' long-standing business models to gain their market shares. Incentives for consumers to upgrade their devices yearly have also softened, with Gartner (a research and advisory firm) noting that new devices offer only incremental upgrades over existing hardware and carriers have been moving away from subsidising upgrades. With such changing smart phone market dynamics, Chinese brands are emerging as the new top global brands. According to Gartner, two Chinese brands ranked within the top five worldwide smart phone vendors in the first quarter of 2015, and represented a total of 11% of the market shares; in the first quarter of 2016, three Chinese brands achieved a total of 17% of the market shares whilst in the third quarter of 2016, three Chinese brands together accounted for 21% of the smart phones sold to end users worldwide. They were the only smart phone vendors in the global top five to increase their sales and market shares during the quarter, according to Gartner. 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 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. These Chinese brand customers contributed a lot to the recovery of the Group's sales in the second half of 2016. Since the competition in the saturated market is fierce, the Group needs to spend more time and efforts to bring in new customers and get more order allocations from existing customers. Meanwhile, the Group pays extra attention to its cost control and competitiveness enhancement in order to offer attractive pricing to customers. For such purposes, the Group has continued to devote resources to maintain its R&D capability, advanced technology like automation and large capacity instrumental for core competence and competitive edge. Long-term win-win business relationships with the customers can then be built up, developed and fostered.

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 smart phone shipment growth slowing down, all these Chinese original equipment manufacturers have to expand their reach outside of their own countries and expand beyond China and continue their growth momentum in emerging markets like India where the "Make-in-India" campaign has prompted more local and Chinese brands to seek ODM/OEM/EMS (electronics manufacturing services) partners with massive capacity in India. The Company believes that India and other emerging markets in the Asia-Pacific region will drive most of the smart phone shipment growth in the coming years. Accordingly, 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. Sales of the Group's Indian operations in the second half of 2016 were about double those in the first half of 2016.

REPORT OF THE DIRECTORS

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. For 2017, the Group expects to generate more businesses from such collaboration. For details of such collaboration, please refer to the Company's relevant announcement dated 18 May 2016 and "Outlook" below.

P&L (Profit and Loss)

In 2015, several major bouts of financial volatility emanating from China shocked global markets and businesses. All these sudden developments caused increasing concerns on the global economic outlook. After a rocky start to 2016 marked by a sliding RMB, capital outflows and tumbling stock markets, China's economy seemed to have stabilised in March 2016, led by a surge in new credit and rebound in the housing market. On the back of the aggressive credit extension and infrastructure spending in 2016, economic growth in China finally stabilised, led by a modest recovery of the "old economy" such as metals and real estate. Slowdown of global economy and smart phone shipment associated with market uncertainties arising from BREXIT (an exit by Britain from European Union), rising competition from peers, crowded competition in casing and more in-sourcing by customers and continuing market share reshuffle in aggregate induced pricing pressure on the Group and hence inevitably imposed adverse impacts on its sales and other income and operating profit for 2016.

To relieve its pricing and gross margin erosion pressure in the stiff competitive handset market and for the purpose of increasing business visibility, the Group has strived to improve efficiency and maintain a good and stable yield by enhancing production automation and asset utilisation and capacity optimisation and also quality assurance and quality control and tighter control on manufacturing overheads. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to lighten the impact of rising labour cost and enhance efficiency. The Group's dedicated and professional procurement team is leveraged to source materials with competitive prices. Furthermore, there has been continuous strong support from the Company's ultimate controlling shareholder, Hon Hai and its other subsidiaries to offer in scale, solid component support and stable supply of key components and vertically integrated supply chain that allow for production synergies. The Group can leverage on the Hon Hai Group's resources, giving the Group more flexibility in outsourcing capacity. To remain competitive, ramp-up time was shortened and the Group's production capacity and R&D capabilities were enhanced to cope with higher customer demands and cultivate long-term relationships and partnerships with customers via providing additional products and end-to-end and value-added product design and development solutions. All these initiatives have been implemented to allow the Group to be more price competitive via cost leadership and win more volumes of business from the customers and achieve economy of scale, thus mitigating the pressure from price and gross margin erosion and product mix deterioration with lower ASP (average selling price) pressure from some customers.

Operating Segments

Across overall business in 2016, through the efforts of developing business with Chinese brands, Asia segment remained the Group's core performance contributor, and the revenue of Asia segment was US$5,801 million, representing an increase of 10.1% from that for the same period last year (2015: US$5,269 million), and recorded earnings were US$368 million, which were close to the recorded earnings for the same period last year. 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 R&D) after the downsizing of European sites, and resources have been continuously devoted to Asia segment (which is of further growth potential) so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment (including India) and develop more new businesses and customers there.

REPORT OF THE DIRECTORS

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. New production capacity was added in Andhra Pradesh State catering to the increasing domestic demands and the Indian Government's "Make-in-India" initiatives. In 2016, the Group has also established and operated a new facility in Maharashtra State which has further increased its production capacity in India.

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, giving rise to a negative impact on handset shipments thereby adversely affecting performance of this segment. The recorded revenue of America segment for 2016 was US$254 million when compared with recorded revenue of US$1,868 million for the same period last year. Similar to Asia segment, negative factors have also affected the profitability of America segment. The recorded earnings for the 2016 were US$9 million when compared with the recorded earnings of US$68 million for the same period last year. The performance of America segment had an adverse impact on the Group's overall performance as sales and earnings of America segment had dropped during the period.

The performance of Europe segment remained less significant as the economic environment there was comparatively not good and remained sluggish and there has been a relatively aggressive pricing strategy. The recorded revenue of European segment for 2016 was US$178 million when compared with recorded revenue of US$313 million for the same period last year. The recorded earnings of this segment for 2016 were US$1 million which were close to the recorded earnings for the same period last year. The performance of Europe segment did not have much adverse impact on the Group's overall performance as European sites have been downsized in prior years and the Group does not have an active operation there.

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.

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), which consideration shall be subject to adjustment in accordance with the agreement (the "Acquisition"). The Company believes that the Acquisition will galvanise the Group's leading position as a vertically integrated manufacturing service provider by reinforcing and expanding its EMS and fulfillment businesses relating to feature phones in emerging or less developed markets, and that the Group will leverage its 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) in the mobile handset industry in support of businesses with more customers through the development of more global fulfillment services as well as new markets and new products. The Acquisition was closed on 30 November 2016. For details, please refer to the Company's relevant announcement dated 18 May 2016 and further announcement relating to amendment dated 1 December 2016. The Company believes that the Acquisition will bring in significant economic values to its business in the long run. For details, please refer to "Outlook" below.

In August 2016, the Group invested approximately US$50 million in Hike Global Pte. Ltd. ("Hike"), an India-based social media application developer. The Group's investment represented 3.36% (calculated on as-converted and fully-diluted basis) of the total issued shares of Hike as at 31 December 2016. Hike through its subsidiaries provides an instant peer-to-peer messaging application on smart phones entitled "hike Messenger" that allows users to send messages and share files over the Internet and/or SMS (short message service) to their peers. The application currently has more than 100 million registered users in India. Through this investment, the Group could establish and develop a closer tie with Hike to explore more cooperation opportunities and also to facilitate its local implementation of "integration-innovation-design-manufacturing and sales-marketing" business model and accomplishment of its "Hardware and Software Integration" strategy in India. The Group's investment in Hike had a carrying value of US$50 million as at 31 December 2016 and represented 0.72% of the Group's total assets.

The Group has continued to invest in its existing investees. In April 2016, the Group further invested US$5 million, in addition to its aggregated investment amount of US$19 million, in Meitu, Inc. ("Meitu"), a leading mobile internet platform company specialising in photo and video applications (notably MeituPic, BeautyCam and Meipai), as well as selling self-branded smart phones for optimised selfie experience. By participating in another round of investment, the Group had strengthened its ties with Meitu, with an aim to creating greater synergies in the segment of mobile internet platform and social networking dominance. On 15 December 2016, Meitu completed its initial public offering ("IPO") and listed its shares on the Main Board of the Stock Exchange (stock code: 1357). US$47.5 million of revaluation gain was thus recognised as "Other Comprehensive Income" (in accounting terms) by the Group in the current year. For details, please refer to the Company's consolidated financial statements for the year ended 31 December 2016, which form part of the annual report. The Group's investment represented about 1.56% of the total post-IPO issued shares of Meitu as at 31 December 2016. Its fair value as at 31 December 2016 amounted to US$71.5 million and represented 1.03% of the Group's total assets.

To further increase the Group's equity investment of US$3 million in November 2015, the Group further invested US$53.3 million in equity interest of Mango International Group Limited ("Mango International"), together with issuance of convertible notes of aggregated principal amount of US$70 million from Mango International in October 2016. Mango International and its subsidiaries, currently operating as "Tink Labs", were launched in September 2012 to help hotels better monetise and understand their guests through mobile technology. Tink Labs' flagship product, *handy*, aims to set the benchmark for hospitality technology solutions, providing an unmatched value preposition for hotels. Since the Group's investment in 2015, Tink Labs' business expanded into certain major tourist destinations in the world and collaborated with various leading hotel groups and luxury hotel icons. The Company considers that the increase in investment will continue to support Tink Labs' expansion strategy and its efforts to drive further innovation of *handy* to deliver an enriched service experience to hotels and their customers worldwide. This will create further synergies between Tink Labs' hardware-as-a-service business model and the Group's hardware expertise in handset manufacturing and related products and services, which will in turn generate further value for the Group and its investment in Tink Labs. The Group can also generate revenue from selling mobile handsets to Tink Labs. By making the strategic investments in Mango International, the Group can leverage on Tink Labs' unique service positioning to gain exposure to high-end hotel customers and understand their needs, facilitating the implementation of the Group's "integration-innovation-design-manufacturing and sales-marketing" business model. As at 31 December 2016, the Group's investment represented about 12.19% (calculated on as-converted and fully-diluted basis) of the total issued shares of Mango International. As at 31 December 2016, the carrying value of the Group's investment in Mango International amounted to US$55.9 million, while the aggregate fair value of the convertible notes amounted to US$80.9 million. They represented 0.80% and 1.16% of the Group's total assets, respectively. During the current year, US$10.9 million of gain from changes in fair value in respect to the convertible notes was recognised. For details, please refer to the Company's consolidated financial statements for the year ended 31 December 2016, which form part of the annual report.

Another major investment of the Group is the US$200 million equity investment in India-based Jasper Infotech Private Limited ("JIPL"), which runs a leading online marketplace and shopping site known as "snapdeal.com" in India ("Snapdeal"), representing 2.87% of the Group's total assets. For details, please refer to the Company's announcement dated 18 August 2015 and the "Investments" section of the report of the directors included in the Company's 2015 annual report. The investment made in September 2015 represented about 4.07% (calculated on as-converted and fully-diluted basis) of the total issued shares of JIPL as at 31 December 2016. 2016 was a challenging year for Snapdeal's business, as Amazon, one of the world's largest online marketplace operators, heavily increased its investment in India. This triggered keener competition among Amazon and its domestic rivals including Flipkart, and hence the financial performance of JIPL was negatively affected. Such environment gave pressure on its financial resources as well. For the year ended 31 December 2016, no impairment loss was recognised as the recoverable amount could cover the carrying amount of the investment as at the date of reporting. As at 31 December 2016, the recoverable amount of the Group's investment in JIPL amounted to US$237 million. In the coming year, the management of the Company will closely monitor the performance of JIPL and its rivals, possible fund raising activities, competition level of the sector as well as the overall economy of India, so that impairment risk in relation to the investment can be continuously monitored and assessed.

Another important investment of the Group includes its equity investment in CExchange, LLC ("CEx"). CEx engages in the business of consumer electronics trade-in and buy-back. In 2016, operational performance of CEx slightly improved in view of its increased revenue and gross margin. The management of CEx was able to secure more opportunities and customers in its local market. In the future, CEx is dedicated to further improve its performance by diversifying its customer portfolio and providing quality and innovative services to its customers. As at 31 December 2016, the Group's investment represented 30% of the total membership interests of CEx. Its carrying value of US$3.05 million represented 0.04% of the Group's total assets as at 31 December 2016.

Another investment of the Group which may worth mentioning is its US$2.5 million equity investment in MoMagic Technologies Private Limited ("MoMagic"), which helps app developers and content firms reach consumers through various means and seek cooperation in mobile networks and penetration into Indian handset market. After securing the investment from the Group in October 2015, MoMagic was able to further develop its technological and business edge 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 2016, the Group's investment represented 10% (on as-converted and fully-diluted basis) of the total issued shares of MoMagic, and its carrying value of US$2.5 million represented 0.04% of the Group's total assets.

For the year ended 31 December 2016, except as disclosed above, the Group was not aware of any circumstances which involve any material impairment in respect of its major investments. On the basis of the information on hand, the Company believes that their long-term prospects are optimistic for the time being. In such a dynamic equity investment market, the Group's investment team is cautious at all times, and therefore the team will continue to monitor the performance of investees, related macro-economic factors, as well as execution capabilities of the respective management teams of those investees, especially when the total equity investment amount has increased a lot upon addition of new major investments to the Group's portfolio in 2015 and 2016.

In addition, the Group has made some other investments in new start-up software and technology companies and hardware companies in wearables and IoT (Internet of Things) fields. 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 2016, the Group had a cash balance of US$1,374 million, which provides the Group with adequate financial resources to cope with unforeseen operational fluctuations. In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring good investment opportunities. Apart from the existing handset manufacturing business, the Group is dedicated to exploring new business by establishing strategic partnerships with technology companies and making equity investments in companies of good potential. The Group has an experienced investment team, and has prioritised investments among the highest long-term growth prospect which may take years before investment can be realised. The Group will be cautious on expanding its investment portfolio in order to create synergies but at the same time to cope with the volatile economic environment in 2017.

There had been no material disposals of the Group's subsidiaries, associates and joint ventures in the year ended 31 December 2016.

In December 2016, from an accounting perspective, the Group lost the significant influence on migme Limited ("migme"), and therefore migme ceased to be the Group's associate. US$3.5 million of loss on deemed disposal was then recognised. For the year ended 31 December 2016, in relation to the Company's investment in migme, the Company is of the opinion that in the light of its continuous operating loss and deteriorating financial health since the fourth quarter of 2016, an impairment loss of US$7.5 million was recognised in respect of the Group's entire investment in migme. migme is an international social media company focusing on emerging markets whose shares are listed on the Australian Stock Exchange. The Group's investment represented about 18.82% of the total issued shares of migme as at 31 December 2016.

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2016, 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, foreign exchange control and intellectual property, and (as the Company's shares have been listed and traded on the Stock Exchange) applicable requirements laid down by the Listing Rules and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO").

The Group has been operating multi-nationally (coupled with investments) in its principal operating segments, namely Asia, America and Europe. In particular, the Group's legal structures and funding arrangements, business models, supply chain and general operations have been structured and realigned in a tax-efficient manner and tax-advantaged way to optimise income tax expenses (as well as cash flows) legitimately from tax, commercial and financial perspectives in multiple jurisdictions. In this respect, the Group's major operating subsidiaries fall under different tax regimes in the PRC, India, Vietnam, U.S.A. and Latin 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. The Group has also obtained (where available) local tax preferences, tax exemptions and other tax incentives (such as super deduction of R&D expenses) and utilised tax losses available, thereby reducing the Group's tax liabilities towards its net profit. During the year ended 31 December 2016, there were no major changes in applicable tax laws and regulations which have impacted the Group's tax expenses.

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

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

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

Liquidity and Financial Resources

As at 31 December 2016, the Group had a cash balance of US$1,374 million (2015: US$1,950 million). Free cash flow, representing the net cash from operating activities of US$234 million (2015: US$877 million) minus capital expenditure and dividends of US$329 million (2015: US$365 million), was US$95 million outflow (2015: US$512 million inflow). The deterioration in free cash flow was mainly due to lower demands from some of the Group's major customers which decreased the net cash from the operating activities. 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$419 million (2015: US$13 million) over total assets of US$6,966 million (2015: US$5,805 million), was 6.01% (2015: 0.22%). All of the external borrowings were denominated in USD, RMB and Japanese Yen (2015: USD). The Group borrowed according to real demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest bearing external borrowings were all at fixed rate ranging from 0.45% to 8% (2015: fixed rate at 1.10%) per annum with original maturity of one to six months (2015: six months).

As at 31 December 2016, the Group's cash and cash equivalents were mainly held in USD and RMB.

Net cash from operating activities for the year ended 31 December 2016 was US$234 million.

Net cash used in investing activities for the year ended 31 December 2016 was US$890 million, of which, mainly, US$110 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC, US$109 million represented withdrawal of bank deposits, US$6,403 million represented purchase of short-term investments, US$59 million represented purchase of available-for-sale investments, US$1 million represented capital contribution to a joint venture, US$15 million represented proceeds from disposal of property, plant and equipment, US$5,916 million represented proceeds from settlements of short-term investments, US$303 million represented acquisition of assets and collaboration arrangement, US$1 million represented proceeds from disposal of prepaid lease payments and US$55 million represented acquisition of investments in associates.

Net cash generated from financing activities for the year ended 31 December 2016 was US$188 million, primarily due to net increase in bank borrowings of US$407 million and dividends paid of US$219 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 six 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 2016, the capital commitment of the Group was US$8.4 million (2015: US$16.9 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 2016 and 2015.

Outlook

The global economy was uncertain and challenging in the first half of 2016. On the back of the aggressive credit extension to keep growth from skidding to a halt and infrastructure spending and reforms to increase the country's domestic consumption and reduce dependence on exports, economic growth in China has stabilised in the second half of 2016 and it is expected to continue into 2017. But for 2017, there are additional challenges. There is a new U.S. administration which may lead to a new landscape for the U.S.-China economic relations as the administration of U.S. President Donald Trump has made it clear that it puts a priority on re-balancing trade with China and this could create uncertainties for China's economic outlook and bilateral trade is expected to suffer from a resurgence of trade protectionism globally. Any trade policy changes that result in increased protectionism by the U.S., such as high tariffs on Chinese imports, would adversely impact China's growth and it is anticipated that China's short-term economic outlook will be "tougher than expected" and trade friction was inevitable with the U.S. Referendums around the world indicating that support for free trade and global integration is in decline and the U.S. is no exception to that.

REPORT OF THE DIRECTORS

China's economic growth rate is expected to slow down further in 2017 and the protracted slowing trend of recent years is unlikely to be reversed any time soon, given secular and structural drags including industrial overcapacity, unfavourable demographics, and falling productivity growth, especially as the authorities restrain China's credit growth amid property market restrictions. China is aware of these challenges and is moving towards a different approach to manage the economy and economic growth targets do not need to be met if doing so entails excessive risks, and the country's leadership appears prepared to accept lower growth as long as employment rates stay firm. This is an important development. By shifting from a national policy anchor of quantity of reported GDP (gross domestic product) growth to a focus on higher-quality and more sustainable growth, a more competitive economic environment will emerge and manufacturing industry will be upgraded so as to be competitive. In general, it is anticipated that RMB will continue to depreciate in 2017 and add implications and the weakening pressure reflects sizeable capital flows out of China and substantial growth in the money supply and limited attractive investment alternatives domestically in China. Strong USD has the implication that smart phone prices are rising not only in local currencies in emerging markets due to a stronger dollar, but also on a worldwide basis in USD terms as vendors continue to upgrade specifications, a move which is believed to crimp market volume. Currency depreciation in emerging markets hurts smart phone demand as smart phone makers have to raise local prices to pass on some margin pressure to consumers, thus resulting in lower volume. Distributors and retailers become conservative in taking on inventory, leading to channel destocking and sell-in weakness. Finally, China's growth depends heavily on investment, but rising debt risks and necessary interest rate hikes will dampen investment growth.

As mentioned above, Asia segment has remained the Group's core performance contributor, and China is the focus of Asia segment. China's economy is unmistakably slowing down and the various factors may continue to negatively impact end market demands and the Group's operations, taking into account also market uncertainties arising from interest rate hike, BREXIT, as well as uncertain business conditions and currency devaluation in emerging markets. Slowdown growth of worldwide smart phone market and rising competition from peers squabbling for the same handset pie and the rapid shift among certain Chinese original equipment manufacturers may impact overall demand visibility of the Group's end markets and future demands of the products that the Group will manufacture and the services that the Group will provide.

The competitive environment in the Group's industry is very intense, and aggressive pricing is a common business dynamic. China, the world's largest smart phone market, becomes mature and heavily penetrated and showed a more mature growth pattern. Phones are now increasingly capable and remain good enough for longer and this will extend the replacement cycle of smart phones. 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 end demands for smart phones for 2017 are expected to remain at low year-on-year growth, 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. In addition, it is estimated that even the amount of sales to the Hon Hai Group may fluctuate as the Hon Hai Group tends to be more cautious about outsourcing, taking into account its own production capacity as well as demands of its end customers which may in turn affect the amount which can be outsourced. All of these developments could potentially cause pressure on the Group's sales, loss of market acceptance of its services, compression of its profits or loss of its market share and all the challenges drive the Group to make continuous improvements.

Conditions are challenging for smart phone vendors, and the Group expects to see a consolidation of the smart phone market in the coming quarters. To compete in smart phones — a market increasingly driven by replacement demand — vendors continue to upgrade specifications and therefore, the bill of materials and costs are both going up and the resulting higher prices to extend the replacement cycle and restrain market volume in the medium term. As mentioned above, there are bright spots where Chinese original equipment manufacturers continue to gain market shares since then, whose shipments have increased dramatically. These vendors are expanding beyond China, noting they are well positioned to serve emerging market demands for high-end and mid-range and low-end smart phones through utilising manufacturing cost advantages, nurturing their channels, spending on marketing, making their differentiators around technology, and positioning abundantly clear to consumers. Mobile manufacturers have opportunities to penetrate lower tier segments in regions such as emerging Asia/Pacific and EMEA (Europe, Middle East and Africa) markets, capitalising on the remaining shift from feature phones to smart phones and benefit from increased demands for affordable smart phones. While affordability is a key engine of the remaining smart phone market growth, channel strategy and knowledge of local consumer market dynamics have become increasingly important. With smart phone shipment growth slowing down, the major factor for all these Chinese original equipment manufacturers 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 can help these Chinese brands to expand aggressively and internationalise rapidly in overseas markets, and these customers want to leverage on the Group to extend their footprints in India and other emerging markets. Since 2015, given the Group's leading industry experience in managing Indian operations and broad service offerings that cover almost every part of the value chain, the Group has been expanding its local manufacturing service and component supply chain support in India to benefit from the Indian Government's "Make-in-India" initiatives, and can address both the domestic Indian market and export demands. The Group's core strategy is to establish and maintain long term relationships with leading companies in expanding businesses in terms of new products and new markets with the size and growth characteristics that can benefit from highly automated, continuous flow manufacturing on a global scale.

In light of the above uncertainties and challenges, the Group will continue with the challenging customer mix transition and the concentrated efforts to diversify customer base by developing more businesses with the Chinese brands as well as other emerging players in the market, and will continue to devote resources to enhance its core competences, remain agile and competitive in providing its customers with differentiated contributions to their supply chain and overall business. On the operation side, the Group will continue to improve efficiency by enhancing control over labour cost, overheads, scraps, operating expenses, idle assets and monitoring capacity and utilisation. The Group's automation engineering team will further increase automation coverage ratio across different manufacturing process. After a few years of efforts in improving efficiency and yield and remaining lean and agile, these initiatives could enable the Group to be more flexible in running even low-volume/high-mix businesses at competitive pricing. The Group is now able to handle more high-mix and small volume orders. To meet its customers' increasingly sophisticated needs, the Group has continuously engaged in product research and design activities which are necessary to manufacture its customers' products in the most cost-effective and consistent manner, and focused on assisting its customers with product creation, development and manufacturing solutions. The Group will continue to invest in PD (product development)/PM (product manufacturing) and R&D capability to further strengthen ODM competence and attract new customers. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Group, which offers scale, solid experience and control in key components) are especially attractive for emerging Chinese brands, internet companies, telecom operators, who have less experience on hardware devices. Meanwhile, there have been constant changes in both technologies and business models. Each industry shift is an opportunity to conceive new products, new technologies or new ideas that can further transform the industry and the Group's business. The Group has been investing in a broad range of R&D activities that seek to identify and address the changing demands of customers, industry trends and competitive forces.

Apart from its existing business, the Group is dedicated to exploiting new business by establishing strategic partnerships (such as the collaboration with Nokia and HMD as mentioned above) and making equity investments, which are expected to be funded by cash generated from the Group's operations and the cash on hand. There are currently no financing plans to meet capital commitments, nor repayment of current debts, and it is not envisaged that there will be fund-raising activities for 2017.

For the new business group operated through the "TNS"-named entities and related entities altogether belonging to the Group (collectively, "TNS"), the collaboration among Nokia, HMD and TNS have 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 smart phones and tablets together with accessories under the manufacturing and distribution arrangements between HMD and TNS, so that the Group could generate more revenue as well as enhance utilisation of its assets, capacities and capabilities in its handset manufacturing business and fulfillment services (including certain feature phone assets acquired by the Group from Microsoft Mobile Oy as mentioned above). The Company notes HMD's ambitious plans to become a globally recognised player in the handset and tablet markets. In support of this, in addition to such feature phone assets acquired from Microsoft Mobile Oy, TNS has been setting up, activating and operating new entities in the relevant locations with the aim to establishing and operating more comprehensive distribution/fulfillment channels (mainly in Asia and EMEA) to facilitate its provision of distribution/fulfillment/after-sales services to HMD and end consumers. Notwithstanding the foregoing, HMD obviously needs time to promote, develop and prove itself in the competitive handset and tablet markets, and its success may rely on (among other things) certain critical factors, including competitive pricing, good hardware designs, robust product quality, strong retailer penetration, effective channel strategy, differentiated and diversified products portfolio, effective marketing initiatives and increasing brand awareness among mass-market consumers. As the strategic partner of HMD, the volume of business of TNS and the related margin will largely depend on success of HMD in its Nokia-branded products business. In 2017, as mentioned above, TNS has to continue to put efforts and resources and recruit more talents to develop products and build up IT and management systems and applications and run the Vietnam facility in a cost-effective manner and set up additional subsidiaries and branches for the purposes of its more comprehensive distribution/fulfillment network and 2017 will definitely be a year of challenge for TNS. On the whole, the Group looks forward to the long-term success of TNS' business.

Looking ahead, the Company understands the tremendous challenges in 2017. The Group will focus on improving operational efficiency and cost saving to cope with economic uncertainties. Remaining lean and agile enables the Group to be more flexible in running even low-volume/high-mix businesses at competitive pricing. Other factors like heightened uncertainty over the global/Chinese/U.S. macro outlook and protectionism, rising interest rate and international political instability are the other uncertainties which have far-reaching implications and impacts. In response, the Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to cope with all these challenges and uncertainties from time to time as well as to maintain and enhance its performance. For details, please refer to the "Accountability and Audit" section of the Corporate Governance Report, which forms part of the annual report.

REPORT OF THE DIRECTORS

Pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose certain unaudited consolidated financial information of the Group on a quarterly basis, and simultaneously upon such disclosure in Taiwan, the Company announces the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan. As mentioned above, the quarterly performance of the Group as revealed by its limited unaudited financial information may fluctuate (possibly significantly). In particular, performance of some seasons may be sub-seasonal as there may be seasonality of sales because of supply chain and inventory and product launch strategy of customers and some old programs may ramp down in a quarter and new programs may ramp up in other quarters. Smart phone overbuilding and stuffing channels in a quarter may need time to clear the stockpiles in following quarters despite relatively solid sell-through by the customers and lead to downside risks in these quarters. Other uncertainties like the Group's financial exposure to foreign currency volatility like RMB volatility, including stock market volatility and currency exchange rate fluctuations resulting from BREXIT or the recent U.S. presidential election (which will affect the amount of foreign exchange gain or loss despite the Group's finance team's efforts to minimise foreign exchange risks) and the possibility of future impairments of property, plant and equipment, goodwill or intangible assets and equity investments and timing of disposition of equity investment and amount of profit or loss upon disposal of equity investment and performance of the Group's associates and its share of profits/losses of associates and renewing or meeting the conditions of tax incentives and credits and timing of receipt of government incentives will also affect quarterly results. For example, in 2015 and 2016, foreign exchange gain was recognised as USD appreciated against all major currencies including RMB to which the Group has the largest exposure. The relative depreciation in RMB led to appreciation of USD-denominated assets held by the Group's PRC entities. Therefore, foreign exchange gain arose from those entities in these years. As the foreign currency risk imposed on the Group could not be fully mitigated, its effect on the Group's operating results has to be monitored periodically. As a whole, the above-mentioned non-operating items can also affect the Group's performance and its interim and final results significantly.

Nevertheless, 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the ESG Report — Reporting Standard and Scope

This Environmental, Social and Governance ("ESG") Report highlights the Group's stance and various efforts in ensuring the sustainability of the Group's overall business unit/group operations. It has been prepared in accordance with the requirements of the ESG Reporting Guide set out in Appendix 27 (the "ESG Guide") to the Listing Rules. The scope of this ESG Report covers the Group for the period from 1 January 2016 to 31 December 2016. This ESG Report addresses the general disclosures of the environmental and social aspects in the ESG Guide, and as the Group's capacity in data collection and reporting matures, disclosures of the key performance indicators as set out in the ESG Guide will be made available in compliance with applicable requirements laid down by the Listing Rules.

Sustainable Governance

The Group's business strategy is firmly grounded on values of sustainable development as awareness of environmental and social issues rise on the global agenda. A sound governance system is essential to drive sustainable initiatives whilst taking the interests of all stakeholders, internal and external, into full account.

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

Compliance with the SER Code is monitored by the Hon Hai Group's Global SER Committee and, in relation to the Group, the Company's Chief Executive Officer and his delegates. Each year, they conduct evaluations and audits against the Group's operations. For the year ended 31 December 2016, the Group operated in compliance with the SER Code.

For more details about the Group's ESG-related risk management and internal control systems, please refer to "Accountability and Audit" set out in the Corporate Governance Report, which forms part of the Company's 2016 annual report incorporating this ESG Report.

Environmental Stewardship

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

Carbon Emission Reduction

The Group contributes to the Hon Hai Group's carbon emission reduction efforts and works continuously with suppliers on carbon emission reduction measures (among other things) by requesting them to adhere to the Group's carbon emission reduction policies and establish systems, at the organisational and product levels, to monitor carbon emissions. Please see the "Supply Chain Management" and "Sustainable Product Management" sections below for more details on the Group's supplier green product management.

Air Pollution Control

Air pollutants (such as organic chemicals, aerosols, corrosive gases, particles, ozone depleting chemical substances and combustion by-products) emitted during the manufacturing process are closely controlled and monitored before discharge. The functioning of air pollutant emission systems are under routine examination.

Water Treatment and Utilisation

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

Waste Management

The Group has a systematic approach to differentiate, control, reduce, dispose of, transport, store and recycle solid waste as well as chemicals and hazardous materials. The Group works to maximise waste recycling, and leverages design and technology to transform waste into usable resource inputs. All relevant waste is treated and disposed of in compliance with relevant environmental laws and regulations.

Environmental Permits and Reporting

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

Recycled Materials

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

Product Content Restrictions

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

Energy Management

The Group works to achieve the Hon Hai Group's global energy-efficiency goals, which are set annually and communicated to its business units/groups. The attainment of these goals is facilitated by the implementation of the ISO50001 Energy Management System which drives progress using the model of continual improvement. By leveraging a range of energy-saving and carbon emission reduction technologies, the Group actively promotes energy efficiency management and renewable energy utilisation.

Employee Awareness

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

Compliance with Relevant Laws and Regulations

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

Human Capital — The Group's Greatest Asset

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

As at 31 December 2016, the Group had a total of 74,652 (2015: 81,013) employees. Total staff costs incurred during the year 2016 amounted to US$407,043,000 (2015: US$353,601,000).

Recruitment and Dismissal

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

Pursuant to the Group's employment contracts and policies applicable to its employees generally, the Group reserves the right to terminate such employment contracts in compliance with the corresponding governing laws if (among other things) such employees breach the material employment terms and conditions (such as their breach of anti-corruption, fraud, extortion or money-laundering obligations) or violate applicable local laws and regulations giving rise to criminal convictions.

Employee Wages and Benefits

The Group offers a comprehensive remuneration policy, which is reviewed by the management on a regular basis. In general, the Group's merit-based remuneration policy rewards its employees for good performance and productivity. The Group treats all employees equally and fairly, and evaluates employee performance (including determining promotions and wage increments) based on merit and ability. To encourage employee retention, the Group has implemented annual bonuses, time-based incentives and other incentive programs. In particular, the Company has adopted a share scheme and a share option scheme, respectively, as described in this report of the directors. The share option scheme complies with the requirements of Chapter 17 of the Listing Rules. The Group has also introduced non-monetary rewards (including housing incentives) for employees with exceptional performance. Employees also enjoy insurance coverage provided by the Group.

Emoluments to Directors

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

Training and Development

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

Anti-discrimination

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

Occupational Safety and Health

The Group abides by the "safety first" policy. Its focus is to deploy proactive and preventive measures in order to eliminate and reduce occupational risks and to provide a healthy and safe working environment for its employees. Safe and sustainable operations are the cornerstone of corporate growth and a fundamental principle in its approach towards the well-being of its employees. The Group has established an advanced detection and monitoring system, implemented control and prevention mechanisms, and conducted regular safety inspections to eliminate and prevent any workplace hazards. Seminars on health and safety are organised to enhance employee awareness of safety policies and capabilities in handling machinery and hazardous materials. In addition, the Group provides facilities for complimentary health checks for its employees.

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

The Group's employee health and safety policies and standards comply with relevant international and local laws and regulations, including the requirements under the OHSAS 18000 (an international occupational health and safety management system), and the SA8000 (an auditable social certification standard for workplaces across all industrial sectors), which also includes guidelines on working hours and rest periods. In particular, the working hours and rest periods (or overtime pays and/or paid holidays in lieu) of the Group's employees comply with applicable local laws and regulations, and are effectively managed to promote work-life balance among the Group's employees.

Care for Employees

The Group considers a steady and harmonious labour relationship to be the foundation for a sustainable development of an enterprise. In order to achieve and enhance such a relationship, the Group has continuously invested in improving the infrastructure of manufacturing plants and the dormitory environment for employees. Recreational facilities provided to the employees include integrated sports stadiums, basketball courts, swimming pools, libraries, parks, gymnasiums, banking, and retail facilities to support a healthy lifestyle and promote work-life balance among employees.

Employees are encouraged to participate in various cultural, entertainment and sport activities organised by the Group according to their individual interests. There are also regular volunteer activities such as blood donation, tree planting and visits to the underprivileged for employees to contribute to their local communities.

Compliance with Relevant Laws and Regulations

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

The Group's Value Chain

Supply Chain Management

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

- Prohibit corruption, fraud, extortion, money-laundering, discrimination, unfair or non-competitive practices throughout the procurement process by signing a letter of undertaking that they will adhere to the principles of fair competition and transparency; and

- Prohibit discrimination based on country of origin, race, culture or politics, among other things, in the supplier verification, evaluation and optimisation process.

The Group evaluates the performance of its suppliers on three levels — organisational management, material differentiation, and project management — which are assessed by four key criteria: quality, transaction price, supply chain support, and technical support. A progressive grading approach is adopted via a Scorecard Platform, in which points are awarded or deducted based on performance in order to motivate suppliers to take actions to improve their standards to fulfill the Group's requirements. Based on their performance, suppliers are included in the Group's Approved Supplier List, Preferred Supplier List and Rejected Supplier List, which are updated periodically.

All suppliers are required to live up to the SER Code, and the SER performance of suppliers is a fundamental criterion in the Group's selection process. The Group maintains a supplier SER management platform that follows the EICC management model. SER risk assessments are conducted on the Group's new suppliers on an annual basis along with continuous on-site supplier audits.

To ensure that the Group's suppliers observe sustainable supply chain practices and to support them in the implementation of such practices throughout the value chain, the Group incorporates a list of environmental criteria into its procurement standards, including low carbon and energy consumption, a high level of recyclability, and green logistics.

Sustainable Product Management

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

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

The Group's use of conflict minerals is strictly governed by international and local legislation. Comprehensive conflict minerals management and procurement policies and guidelines are executed by the Group's conflict management programs and teams, which monitor compliance with policies and coordinate relevant training for employees and suppliers. The SER contract formed with each supplier includes conflict minerals management terms which clearly define standards and classifications for conflict minerals across the industry supply chain.

Data Privacy

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

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

Anti-corruption Policy

The Group upholds a corporate culture of integrity and management with dignity and expects all of its directors, officers and employees to observe high standards of ethical behaviour. It is committed to full compliance with applicable national and international anti-corruption, anti-bribery, anti-extortion and anti-money-laundering laws and regulations. The Group's "Anti-Corruption Code of Conduct" describes the types of conduct which are strictly prohibited and clearly informs all employees that they are required to abide by this Code. In addition, the Group has set up an anti-corruption team to investigate into any allegations of improper conduct. In addition, the Group requires (as a prerequisite to the establishment of business relationship) its suppliers and customers to strictly enforce high standards of anti-corruption.

Labelling and Advertising

The Group provides packaging and product information labelling services in compliance with its customers' respective instructions and applicable laws and regulations of the relevant exporting and importing jurisdictions, particularly enabling its customers to trace the relevant manufacturing plants for product-return or other product-related enquiries.

Since the Group does not sell its products to end consumers directly, the Group needs not promote its products and services by advertising, whereas product advertising activities are conducted by the Group's customers.

Compliance with Relevant Laws and Regulations

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

Community Contribution

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

Donations

The Group has in the financial year ended 31 December 2016 made donations for charitable or other purposes to a total amount of approximately US$3,500.

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REPORT OF THE DIRECTORS

RESERVES

Movements in reserves of the Group during the year are set out on page 60.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution amounted to approximately US$2,070,020,000.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 30 to the consolidated financial statements.

On 1 November 2016, a total of 91,551,539 ordinary shares of the Company were allotted and issued to the trustee for the benefit of the beneficiaries, who were not connected persons (as defined in the Listing Rules) of the Company, under the share scheme of the Company adopted by the Board on 17 October 2013 and by the shareholders of the Company on 26 November 2013 (the "Existing Share Scheme"). Save for the aforesaid, no other shares of the Company were allotted or issued in the financial year ended 31 December 2016.

FINANCIAL SUMMARY

A financial summary of the results of the Group for the last five financial years is set out on page 137.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

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

BANK LOANS

Details of bank loans are set out in note 29 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

TONG Wen-hsin (resigned on 1 January 2017)
CHIH Yu Yang
LEE Jer Sheng (resigned on 7 June 2016)
WANG Chien Ho (appointed on 7 June 2016)

Non-executive Director

LEE Kuo Yu (resigned on 29 May 2016)

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming
TAO Yun Chih (appointed on 9 March 2017)

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

REPORT OF THE DIRECTORS

Pursuant to article 112 of the articles of association of the Company (the "Articles"), one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. Pursuant to article 95 of the Articles, Mr. WANG Chien Ho was appointed as an executive director effective 7 June 2016 and, being eligible, will offer himself for re-election at the Company's forthcoming annual general meeting, and also, Mr. TAO Yun Chih was appointed as an independent non-executive director effective 9 March 2017 and, being eligible, will offer himself for re-election at the Company's forthcoming annual general meeting.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 1 November 2016, the Company granted 1,300,761 shares and 3,251,902 shares to Messrs. TONG Wen-hsin and CHIH Yu Yang respectively under the Existing Share Scheme.

Mr. TONG Wen-hsin resigned as the chairman and an executive director of the Company effective 1 January 2017, due to his desire to pursue other new business initiatives. It followed that he ceased to be the Company's authorised representative and a member of the corporate governance committee of the Company, in each case effective 1 January 2017.

Mr. CHIH Yu Yang was appointed as the acting chairman of the Company effective 1 January 2017. He was also appointed as the Company's authorised representative effective 1 January 2017.

Mr. WANG Chien Ho was appointed as a member of the corporate governance committee of the Company effective 1 January 2017.

Mr. TAO Yun Chih was appointed as an independent non-executive director of the Company effective 9 March 2017. His biographical details are set out in "Profile of Directors and Senior Management" above.

During the year, an expenses allowance of approximately US$930 was paid to Mr. CHIH Yu Yang.

SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

Article 175 of the Articles provides that (i) every director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted; and (ii) subject to the Companies Law (2011 Revision), Cap. 22 of the Cayman Islands laws (as amended from time to time), if any director of the Company or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the director or person so becoming liable as aforesaid from any loss in respect of such liability. Such permitted indemnity provision is in force during the financial year ended 31 December 2016 and at the time of approval of this report of the directors.

DISCLOSURE OF INTERESTS

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

As at 31 December 2016, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
TONG Wen-hsin *(Note 1)*	Company	Personal Interest	3,384,027	0.0424%
	Hon Hai	Personal Interest	213,928	0.0012%
CHIH Yu Yang	Company	Personal Interest	14,227,857	0.1782%
	Hon Hai	Personal Interest	1,454,594	0.0084%
	CMCS *(Note 2)*	Personal Interest	1,000	0.0007%

Notes:

1. Mr. TONG Wen-hsin resigned as the chairman and an executive director of the Company effective 1 January 2017.

2. The Company indirectly, through its wholly-owned subsidiaries, holds approximately 86.82% of the entire number of issued shares of CMCS, a company incorporated in Taiwan.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2016, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to any director of the Company, as at 31 December 2016, shareholders (other than the directors or chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited	Beneficial owner	5,081,034,525	63.63%
Hon Hai *(Notes)*	Interest of a controlled corporation	5,081,034,525	63.63%

Notes:

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

2. Mr. WANG Chien Ho, an executive director of the Company, is an employee of the Hon Hai Group.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration payable to the five members of the senior management of the Company (whose biographical details were disclosed in "Profile of Directors and Senior Management" set forth in the 2015 annual report of the Company) during the year were within the following bands:

	Number of senior management
HK$0 to HK$500,000	2 *(Note)*
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	1
HK$2,000,001 to HK$2,500,000	1
	5

Note: One of the two members of the senior management of the Company ceased to be such with effect from 7 June 2016.

CONTINUING CONNECTED TRANSACTIONS

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

For more details, please refer to the Company's announcement relating to continuing connected transactions dated 11 August 2016, circular relating to continuing connected transactions dated 1 September 2016, and announcement dated 21 September 2016 relating to poll results of extraordinary general meeting.

Purchase Transaction

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

(a) in respect of purchases from a supplier of materials and components for the manufacture of handsets as approved by the Group's customer, at the price agreed between the supplier and the Group's customer; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

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

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

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement (the "Supplemental Purchase Agreement"), which would become effective only after obtaining the approval by the Company's shareholders other than Hon Hai and its associates (as defined in the Listing Rules) (the "Independent Shareholders"), to extend the term of the Purchase Agreement to 31 December 2019.

On the same date, the Company also proposed new annual caps for the Purchase Transaction for the three years ending 31 December 2019 at US$977 million for 2017, US$1,045 million for 2018 and US$1,118 million for 2019, which were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the actual amount of the Purchase Transaction in 2016;
- the historical percentage of the amount of the Purchase Transaction to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 for the Purchase Transaction, the Purchase Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Purchase Transaction, the Supplemental Purchase Agreement and the relevant proposed annual caps for the three years ending 31 December 2019 were subject to the approval of the Independent Shareholders. On 21 September 2016, the Purchase Transaction, the Supplemental Purchase Agreement and the relevant proposed annual caps for the three years ending 31 December 2019 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Product Sales Transaction

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

(a) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

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

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

Having regard to the Group's development plan where the Group targeted to carry out more business that would result in additional Product Sales Transaction, the Company envisaged that the then existing annual cap for the Product Sales Transaction for the year ended 31 December 2016 might not be sufficient. Therefore, on 11 August 2016, the Company proposed to revise the annual cap for the Product Sales Transaction for the year ended 31 December 2016 at US$889 million.

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement (the "Supplemental Product Sales Agreement"), which would become effective only after obtaining the Independent Shareholders' approval, to extend the term of the Product Sales Agreement to 31 December 2019.

On the same date, the Company also proposed new annual caps for the Product Sales Transaction for the three years ending 31 December 2019 at US$951 million for 2017, US$1,018 million for 2018 and US$1,089 million for 2019.

The proposed annual caps (comprising the proposed annual cap for the year ended 31 December 2016 for the Product Sales Transaction and the proposed annual caps for the three years ending 31 December 2019 for the Product Sales Transaction) were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the actual amount of the Product Sales Transaction in 2016;
- the historical percentage of the amount of the Product Sales Transaction to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

Based on the proposed annual cap for the year ended 31 December 2016 for the Product Sales Transaction, the proposed revision of the annual cap for the Product Sales Transaction for the year ended 31 December 2016 was subject to the Independent Shareholders' approval. Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 for the Product Sales Transaction, the Product Sales Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Product Sales Transaction, the Supplemental Product Sales Agreement and the relevant proposed annual caps for the three years ending 31 December 2019 were subject to the approval of the Independent Shareholders. On 21 September 2016, the proposed revision of the annual cap for the Product Sales Transaction for the year ended 31 December 2016, the Product Sales Transaction, the Supplemental Product Sales Agreement and the proposed annual caps for the three years ending 31 December 2019 for the Product Sales Transaction were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Non-real Property Lease Expense Transaction

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

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

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

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement (the "Supplemental Non-real Property Lease Expense Agreement"), which would become effective only after obtaining the Independent Shareholders' approval, to extend the term of the Non-real Property Lease Expense Agreement to 31 December 2019.

On the same date, the Company also proposed new annual caps for the Non-real Property Lease Expense Transaction for the three years ending 31 December 2019 at US$19 million for 2017, US$20 million for 2018 and US$21 million for 2019, which were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the actual amount of the Non-real Property Lease Expense Transaction in 2016;
- the historical percentage of the amount of the Non-real Property Lease Expense Transaction to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 for the Non-real Property Lease Expense Transaction and in view of the connections between the Non-real Property Lease Expense Transaction and the Product Sales Transaction, the Non-real Property Lease Expense Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Non-real Property Lease Expense Transaction, the Supplemental Non-real Property Lease Expense Agreement and the relevant proposed annual caps for the three years ending 31 December 2019 were subject to the approval of the Independent Shareholders. On 21 September 2016, the Non-real Property Lease Expense Transaction, the Supplemental Non-real Property Lease Expense Agreement and the relevant proposed annual caps for the three years ending 31 December 2019 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Consolidated Services and Sub-contracting Expense Transaction

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

(a) where the Hon Hai Group has been approved or otherwise designated by the relevant customers of the Group, at the price agreed between the Hon Hai Group and such customers; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

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

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

Having regard to the Group's development plan where the Group targeted to carry out more business that would result in additional Consolidated Services and Sub-contracting Expense Transaction, the Company envisaged that the then existing annual cap for the Consolidated Services and Sub-contracting Expense Transaction for the year ended 31 December 2016 might not be sufficient. Therefore, on 11 August 2016, the Company proposed to revise the annual cap for the Consolidated Services and Sub-contracting Expense Transaction for the year ended 31 December 2016 at US$311 million.

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement (the "Supplemental Consolidated Services and Sub-contracting Expense Agreement"), which would become effective only after obtaining the Independent Shareholders' approval, to extend the term of the Consolidated Services and Sub-contracting Expense Agreement to 31 December 2019.

On the same date, the Company also proposed new annual caps for the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2019 at US$333 million for 2017, US$356 million for 2018 and US$381 million for 2019.

The proposed annual caps (comprising the proposed annual cap for the year ended 31 December 2016 for the Consolidated Services and Sub-contracting Expense Transaction and the proposed annual caps for the three years ending 31 December 2019 for the Consolidated Services and Sub-contracting Expense Transaction) were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the actual amount of the Consolidated Services and Sub-contracting Expense Transaction in 2016;
- the historical percentage of the amount of the Consolidated Services and Sub-contracting Expense Transaction to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

Based on the proposed annual cap for the year ended 31 December 2016 for the Consolidated Services and Sub-contracting Expense Transaction, the proposed revision of the annual cap for the Consolidated Services and Sub-contracting Expense Transaction for the year ended 31 December 2016 was subject to the Independent Shareholders' approval. Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 for the Consolidated Services and Sub-contracting Expense Transaction, the Consolidated Services and Sub-contracting Expense Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Consolidated Services and Sub-contracting Expense Transaction, the Supplemental Consolidated Services and Sub-contracting Expense Agreement and the relevant proposed annual caps for the three years ending 31 December 2019 were subject to the approval of the Independent Shareholders. On 21 September 2016, the proposed revision of the annual cap for the Consolidated Services and Sub-contracting Expense Transaction for the year ended 31 December 2016, the Consolidated Services and Sub-contracting Expense Transaction, the Supplemental Consolidated Services and Sub-contracting Expense Agreement and the proposed annual caps for the three years ending 31 December 2019 for the Consolidated Services and Sub-contracting Expense Transaction were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Equipment Purchase Transaction

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

(a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Group; or

(b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or

(c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

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

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

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement (the "Supplemental Equipment Purchase Agreement"), which would become effective only after obtaining the Independent Shareholders' approval, to extend the term of the Equipment Purchase Agreement to 31 December 2019.

On the same date, the Company also proposed new annual caps for the Equipment Purchase Transaction for the three years ending 31 December 2019 at US$163 million for 2017, US$175 million for 2018 and US$187 million for 2019, which were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the actual amount of the Equipment Purchase Transaction in 2016;
- the historical percentage of the amount of the Equipment Purchase Transaction to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 for the Equipment Purchase Transaction, the Equipment Purchase Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Equipment Purchase Transaction, the Supplemental Equipment Purchase Agreement and the relevant proposed annual caps for the three years ending 31 December 2019 were subject to the approval of the Independent Shareholders. On 21 September 2016, the Equipment Purchase Transaction, the Supplemental Equipment Purchase Agreement and the relevant proposed annual caps for the three years ending 31 December 2019 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Sub-contracting Income Transaction

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

(a) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

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

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

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement to extend the term of the Sub-contracting Income Agreement to 31 December 2019.

On the same date, the Company also set new annual caps for the Sub-contracting Income Transaction for the three years ending 31 December 2019 at US$114 million for 2017, US$121 million for 2018 and US$130 million for 2019, which were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the actual amount of the Sub-contracting Income Transaction in 2016;
- the historical percentage of the amount of the Sub-contracting Income Transaction to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

Based on the maximum amount of the new annual caps for the three years ending 31 December 2019 for the Sub-contracting Income Transaction, all relevant percentage ratios were less than 5%. In accordance with rule 14A.76(2) of the Listing Rules, the Sub-contracting Income Transaction and the relevant new annual caps for the three years ending 31 December 2019 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements. On 11 August 2016, the Company published the relevant announcement.

General Services Expense Transaction

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

(a) where there is a price determined by the relevant state, at such state-determined price; or

(b) where there is no state-determined price, at the market price; or

(c) where there is no state-determined price or market price, on the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the relevant parties.

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

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

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement to extend the term of the General Services Expense Agreement to 31 December 2019.

On the same date, the Company also set new annual caps for the General Services Expense Transaction for the three years ending 31 December 2019 at US$23 million for 2017, US$24 million for 2018 and US$26 million for 2019, which were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the actual amount of the General Services Expense Transaction in 2016;
- the historical percentage of the amount of the General Services Expense Transaction to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

Based on the maximum amount of the new annual caps for the three years ending 31 December 2019 for the General Services Expense Transaction, all relevant percentage ratios were less than 5%. In accordance with rule 14A.76(2) of the Listing Rules, the General Services Expense Transaction and the relevant new annual caps for the three years ending 31 December 2019 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements. On 11 August 2016, the Company published the relevant announcement.

Equipment Sale Transaction

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

(a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Group; or

(b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or

(c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

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

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

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement to extend the term of the Equipment Sale Agreement to 31 December 2019.

On the same date, the Company also set new annual caps for the Equipment Sale Transaction for the three years ending 31 December 2019 at US$21 million for 2017, US$22 million for 2018 and US$24 million for 2019, which were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the actual amount of the Equipment Sale Transaction in 2016;
- the historical percentage of the amount of the Equipment Sale Transaction to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

Based on the maximum amount of the new annual caps for the three years ending 31 December 2019 for the Equipment Sale Transaction, all relevant percentage ratios were less than 5%. In accordance with rule 14A.76(2) of the Listing Rules, the Equipment Sale Transaction and the relevant new annual caps for the three years ending 31 December 2019 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements. On 11 August 2016, the Company published the relevant announcement.

Lease Expense Transaction

Pursuant to the framework lease agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 20 September 2006, 24 October 2007, 19 November 2010 and 17 October 2013) between 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only) (a wholly-owned subsidiary of the Company), which was subsequently replaced by the Company as the party thereto, and Hon Hai (the "Lease Expense Agreement"), the Hon Hai Group has leased premises owned by it and located worldwide to the Group from time to time as requested by the Group for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein. The rental payable by the Group under the transactions contemplated under the Lease Expense Agreement (the "Lease Expense Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market. If the average market rental is not available, the rental payable under the Lease Expense Transaction shall be determined on a "cost plus" basis. If both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Lease Expense Transaction constitutes a continuing connected transaction for the Company.

A part of the Group's operations in the PRC is located in the Hon Hai Group's industrial parks in the PRC in view of the benefits of locating close to the members of the Hon Hai Group which possess leading capabilities and expertise amid the convergence trend within the 3C industries, and the physical proximity can lead to additional savings and efficiency to the Group if the Group's customers select these members of the Hon Hai Group as the vendors approved by the customers of the Group.

The Company envisaged that the annual amount for the Lease Expense Transaction for the year ended 31 December 2016 would exceed 0.1% of the applicable percentage ratios. Therefore, on 11 August 2016, the Company set new annual cap for the Lease Expense Transaction for the year ended 31 December 2016 at US$4 million.

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement to extend the term of the Lease Expense Agreement to 31 December 2019.

On the same date, the Company also set new annual caps for the Lease Expense Transaction for the three years ending 31 December 2019 at US$5 million for 2017, US$5 million for 2018 and US$5 million for 2019.

The new annual caps (comprising the new annual cap for the year ended 31 December 2016 for the Lease Expense Transaction and the new annual caps for the three years ending 31 December 2019 for the Lease Expense Transaction) were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the actual amount of the Lease Expense Transaction in 2016;
- the historical percentage of the amount of the Lease Expense Transaction to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

Based on the new annual cap for the year ended 31 December 2016 for the Lease Expense Transaction and the maximum amount of the new annual caps for the three years ending 31 December 2019 for the Lease Expense Transaction, all relevant percentage ratios were less than 5%. In accordance with rule 14A.76(2) of the Listing Rules, the Lease Expense Transaction, the relevant new annual cap for the year ended 31 December 2016 and the relevant new annual caps for the three years ending 31 December 2019 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements. On 11 August 2016, the Company published the relevant announcement.

Annual Consideration

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

Continuing connected transaction	Paying Group	Total consideration for the year ended 31 December 2016 (US$'000)
Purchase Transaction	Group	1,141,540
Product Sales Transaction	Hon Hai Group	868,939
Non-real Property Lease Expense Transaction	Group	14,939
Consolidated Services and Sub-contracting Expense Transaction	Group	234,666
Equipment Purchase Transaction	Group	59,704
Sub-contracting Income Transaction	Hon Hai Group	73,788
General Services Expense Transaction	Group	15,174
Equipment Sale Transaction	Hon Hai Group	10,833
Lease Expense Transaction	Group	3,396

Annual Review

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

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

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or better; and

3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, in respect of the continuing connected transactions of the Group for the year ended 31 December 2016 not falling under rule 14A.76(1) of the Listing Rules, the Company has followed the pricing policies set out in the relevant agreements governing them, and the independent non-executive directors of the Company confirmed that the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with such pricing policies.

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

The related party transactions referred to in note 40 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

SHARE OPTION SCHEMES AND SHARE SCHEMES

Termination of Former Schemes and Adoption of Existing Schemes

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

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

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

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

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

Summary of Principal Terms of Existing Share Option Scheme

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

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

The total number of shares in respect of which options may be granted under the Existing Share Option Scheme shall be 757,380,227 shares, representing approximately 9.48% of the total number of issued shares of the Company as at the date of this report of the directors.

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

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

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

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

Please refer to note 42 to the consolidated financial statements for more details.

Information on Existing Share Scheme

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

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

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

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

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

At the Company's annual general meeting held on 25 May 2016 (the "2016 AGM"), an ordinary resolution was passed to grant a general mandate to the Board (or its duly authorised officer(s) or delegate(s)) to allot, issue and deal with additional shares under the Existing Share Scheme not exceeding 2% of the total number of issued shares of the Company as at the date of such meeting, amounting to an aggregate of 157,874,063 shares.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 1 November 2016, the Company awarded a total of 101,168,760 ordinary shares (including 9,617,221 ordinary shares which were purchased from the market by the trustee as per the Existing Share Scheme) to a total of 1,807 beneficiaries under the Existing Share Scheme, in respect of which some share awards are subject to the corresponding lock-up periods.

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

As at 9 March 2017, the issued share capital of the Company comprised 7,985,254,691 shares of US$0.04 each. Subject to the passing of an ordinary resolution approving the Scheme Mandate and on the basis that no shares will be issued, purchased or bought-back prior to the forthcoming annual general meeting, exercise in full of the Scheme Mandate will result in 159,705,093 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$3.25 per share as at 9 March 2017 and the Scheme Mandate being exercised in full, the aggregate market value of the 159,705,093 shares to be allotted and issued pursuant thereto would be approximately HK$519,041,552.25. The Company expects that the costs attributable to the grant of any shares under the Existing Share Scheme will be accounted for by reference to the market value of such shares at the time of grant. The Company will give due consideration to any financial impact arising from the grant of shares under the Existing Share Scheme before exercising the Scheme Mandate.

Please refer to note 42 to the consolidated financial statements for more details.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 66.55% of the Group's total revenue from sales of goods and rendering of services for the year and revenue from sales of goods and rendering of services to the Group's largest customer amounted to approximately 19.44%. Purchases from the Group's five largest suppliers accounted for approximately 33.67% of the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 12.54%.

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

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

PENSION SCHEMES

Details of the Group's pension scheme and the basis of calculation are set out in note 41 to the consolidated financial statements.

AUDIT COMMITTEE

The Company has established and maintained an audit committee in accordance with the requirements of the Listing Rules, particularly the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the "CG Code"). Its primary duties are to review the Group's financial reporting process and internal control and risk management systems, nominate and monitor external auditors and provide advice and comments to the Board. The audit committee comprises three independent non-executive directors (among whom one of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules).

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the annual report and recommended the same to the Board for approval.

CORPORATE GOVERNANCE

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

For more details, please refer to the Corporate Governance Report, which forms part of the annual report.

AUDITORS

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

On behalf of the Board

CHIH Yu Yang
Acting Chairman

Hong Kong, 9 March 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the Shareholders of FIH Mobile Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of FIH Mobile Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 57 to 136, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matters
Valuation of investments in relation to the acquisition of certain assets of feature phone business and collaboration in relation to Nokia-branded products (the "Acquisition and Collaboration Transactions")	
We identified the valuation of investments in relation to the Acquisition and Collaboration Transactions as disclosed in note 36 as a key audit matter due to its complexity and the judgement exercised by the Group's management. As disclosed in note 4, determining an estimation of the recoverable amounts of the investments, the Group engages an independent professional valuer to perform such valuation. The valuation is determined based on the cash flow projection for the cash-generating unit (the "CGU") discounted to its present value and it requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the relevant industry growth forecasts, financial budgets approved by the directors from the management's experience from manufacturing of related feature phones and smart phones and management's expectations for the market development. The management considers that no impairment was identified on these investments.	Our procedures in relation to assessing the appropriateness of the valuation of investments in relation to the Acquisition and Collaboration Transactions included: • Reviewing the related agreements entered between the Group and the seller, and assessing the related accounting treatment of the Acquisition and Collaboration Transactions is properly accounted for by the Group; • Understanding the Group's estimation of the recoverable amounts of the CGU, including the valuation model adopted, key assumptions used and the involvement of independent valuer appointed by the Group; • Evaluating the reasonableness of the budgeted sales and gross margin by considering the approved financial budgets, the management's business plan, the available industry and market data; • Engaging our valuation expert to evaluate the appropriateness of the valuation model adopted, discount rate used and terminal growth rate; and • Assessing whether the disclosures of the Acquisition and Collaboration Transactions in the consolidated financial statements are sufficient and appropriate.

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of unlisted equity investment in relation to Jasper Infotech Private Limited	
We identified the impairment assessment of unlisted equity investment in relation to Jasper Infotech Private Limited ("JIP") with carrying value of US$200,004,000 as at 31 December 2016 as a key audit matter due to significant management judgement involved in determining the recoverable amount of the unlisted available-for-sale investment for impairment assessment. As disclosed in note 19 to the consolidated financial statements, investment in JIP is classified as available-for-sale financial assets stated as cost less impairment. As set out in note 4 to the consolidated financial statements, determining the amount of impairment for JIP requires an estimation of the recoverable amounts for which the Group engaged an independent professional valuer to perform such valuation, which made reference to recent transactions for the acquisition of the investment in the market. The directors of the Company are of the view that no impairment was identified on the investment in JIP as at 31 December 2016.	Our procedures in relation to evaluating the appropriateness of the management's impairment assessment of unlisted equity investment in relation to JIP included: • Understanding how the Group's management performed the impairment assessment of JIP; • Checking the existence of the recent transactions of shares of JIP in the market to determine the recoverable amount; • Understanding the basis of calculation of valuation adopted by an independent professional valuer engaged by the Group, which make reference to the recent transaction prices of shares of JIP; and • Engaging our valuation expert to evaluate the appropriateness of the estimation of the recoverable amount of the investment in JIP.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tsang Chi Wai.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
9 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Revenue	6	6,233,084	7,450,992
Cost of sales		(5,891,535)	(7,064,953)
Gross profit		341,549	386,039
Other income, gains and losses	7	217,986	244,750
Selling expenses		(20,489)	(18,513)
General and administrative expenses		(201,100)	(187,813)
Research and development expenses		(117,259)	(114,633)
Impairment loss recognised for interests in associates		–	(8,112)
Interest expense on bank borrowings	29	(936)	(5,777)
Share of loss of associates		(1,687)	(5,172)
Share of loss of joint ventures		(1,153)	(605)
Profit before tax	8	216,911	290,164
Income tax expense	11	(80,700)	(61,500)
Profit for the year		136,211	228,664
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		495	(655)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(193,681)	(241,383)
Fair value gain (loss) on available-for-sale financial assets		48,729	(547)
Share of translation reserve of associates		(2,206)	(349)
Share of translation reserve of joint ventures		30	(171)
		(147,128)	(242,450)
Other comprehensive expense for the year, net of income tax		(146,633)	(243,105)
Total comprehensive expense for the year		(10,422)	(14,441)
Profit (loss) for the year attributable to:			
Owners of the Company		138,321	229,066
Non-controlling interests		(2,110)	(402)
		136,211	228,664
Total comprehensive expense attributable to:			
Owners of the Company		(8,245)	(13,761)
Non-controlling interests		(2,177)	(680)
		(10,422)	(14,441)
Earnings per share	13		
Basic		US1.77 cents	US2.96 cents
Diluted		US1.75 cents	US2.93 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Non-current assets			
Property, plant and equipment	14	905,071	853,547
Investment properties	15	6,273	6,515
Prepaid lease payments	16	50,172	42,317
Goodwill	17	83,235	–
Intangible assets	18	19,000	–
Available-for-sale investments	19	354,181	255,939
Interests in associates	20	72,379	29,359
Interests in joint ventures	21	3,546	3,897
Deferred tax assets	22	32,426	47,082
Deposit for acquisition of prepaid lease payments	23	27,499	30,700
Convertible notes	24	60,000	–
		1,613,782	1,269,356
Current assets			
Inventories	25	375,336	332,636
Trade and other receivables	26	2,495,148	1,595,361
Short-term investments	27	929,627	385,138
Convertible notes	24	20,940	–
Bank deposits	33	158,075	272,218
Bank balances and cash	33	1,373,550	1,950,306
		5,352,676	4,535,659
Current liabilities			
Trade and other payables	28	2,769,912	1,857,110
Bank borrowings	29	418,596	13,367
Provision	34	21,172	19,093
Tax payable		154,565	132,662
		3,364,245	2,022,232
Net current assets		1,988,431	2,513,427
Total assets less current liabilities		3,602,213	3,782,783

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Capital and reserves			
Share capital	*30*	**319,410**	315,748
Reserves	*31*	**3,245,223**	3,431,194
Equity attributable to owners of the Company		**3,564,633**	3,746,942
Non-controlling interests		**6,123**	8,472
Total equity		**3,570,756**	3,755,414
Non-current liabilities			
Deferred tax liabilities	*22*	**7,590**	150
Deferred income	*35*	**23,867**	27,219
		31,457	27,369
		3,602,213	3,782,783

The consolidated financial statements on pages 57 to 136 were approved and authorised for issue by the board of directors on 9 March 2017 and are signed on its behalf by:

CHIH YU YANG
DIRECTOR

WANG CHIEN HO
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 *(note 31)*	Revaluation reserve US$'000 *(note b)*	Other reserve US$'000 *(note a)*	Legal reserve US$'000 *(note 31)*	Translation reserve US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2015	311,579	1,090,444	15,514	(749)	(951)	166,495	434,463	(14,165)	1,918,088	3,920,718	9,152	3,929,870
Other comprehensive expense for the year	–	–	–	(547)	(655)	–	(241,625)	–	–	(242,827)	(278)	(243,105)
Profit (loss) for the year	–	–	–	–	–	–	–	–	229,066	229,066	(402)	228,664
Total comprehensive (expense) income for the year	–	–	–	(547)	(655)	–	(241,625)	–	229,066	(13,761)	(680)	(14,441)
Issue of ordinary shares under Share Scheme	4,169	49,345	–	–	–	–	–	(53,514)	–	–	–	–
Payment made for equity-settled share-based payments *(note 42)*	–	–	–	–	–	–	–	(5,389)	–	(5,389)	–	(5,389)
Recognition of equity-settled share-based payments *(note 42)*	–	–	–	–	–	–	–	37,733	–	37,733	–	37,733
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	–	–	–	(192,359)	(192,359)	–	(192,359)
Profit appropriations	–	–	–	–	–	336	–	–	(336)	–	–	–
Balance at 31 December 2015	315,748	1,139,789	15,514	(1,296)	(1,606)	166,831	192,838	(35,335)	1,954,459	3,746,942	8,472	3,755,414
Other comprehensive income (expense) for the year	–	–	–	48,729	495	–	(195,790)	–	–	(146,566)	(67)	(146,633)
Profit (loss) for the year	–	–	–	–	–	–	–	–	138,321	138,321	(2,110)	136,211
Total comprehensive income (expense) for the year	–	–	–	48,729	495	–	(195,790)	–	138,321	(8,245)	(2,177)	(10,422)
Issue of ordinary shares under Share Scheme	3,662	27,162	–	–	–	–	–	(30,824)	–	–	–	–
Purchase of additional interests in a subsidiary	–	–	–	–	(87)	–	–	–	–	(87)	(172)	(259)
Payment made for equity-settled share-based payments *(note 42)*	–	–	–	–	–	–	–	(3,234)	–	(3,234)	–	(3,234)
Recognition of equity-settled share-based payments *(note 42)*	–	–	–	–	–	–	–	47,856	–	47,856	–	47,856
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	–	–	–	(218,599)	(218,599)	–	(218,599)
Profit appropriations	–	–	–	–	–	1,839	–	–	(1,839)	–	–	–
Balance at 31 December 2016	319,410	1,166,951	15,514	47,433	(1,198)	168,670	(2,952)	(21,537)	1,872,342	3,564,633	6,123	3,570,756

Notes:

(a) The amount represents the remeasurement of defined benefit pension plans and the other reserve arising from the effects of changes in ownership in certain subsidiaries when there was no change in control.

(b) The amount represents the change in fair value of the listed equity investments and investment in a private fund classified as available-for-sale investments.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 US$'000	2015 US$'000
OPERATING ACTIVITIES		
Profit before tax	216,911	290,164
Adjustments for:		
Depreciation and amortisation	141,378	140,355
Share-based payment expenses	47,856	37,733
Write down of inventories	27,399	19,852
Loss on disposal and write-off of property, plant and equipment	20,808	1,429
Impairment loss recognised for available-for-sale investments	19,094	5,000
Share of loss of associates	1,687	5,172
Share of loss of joint ventures	1,153	605
Interest expense	936	5,777
Impairment loss recognised in respect of trade receivables	727	1
Impairment loss recognised for property, plant and equipment	401	2,554
Loss (gain) on deemed disposal of interests in associates	180	(284)
Impairment loss recognised for interests in associates	–	8,112
Loss from changes in fair value of financial assets classified as held-for-trading	–	1,902
Gain on disposal of prepaid lease payments	(618)	(224)
Deferred income recognised to income	(1,690)	(1,801)
Interest income	(32,322)	(43,379)
Gain from changes in fair value of financial assets designated as fair value through profit or loss	(36,555)	(18,447)
Operating cash flows before movements in working capital	407,345	454,521
(Increase) decrease in inventories	(53,801)	203,674
(Increase) decrease in trade and other receivables	(1,237,992)	635,713
Increase (decrease) in trade and other payables	1,126,509	(365,316)
Increase (decrease) in provision	3,273	(7,938)
Cash generated from operations	245,334	920,654
Income taxes paid	(42,340)	(75,424)
Interest paid	(1,129)	(6,970)
Interest received	35,725	44,285
Payments made for share-based payment expenses	(3,234)	(5,389)
NET CASH FROM OPERATING ACTIVITIES	234,356	877,156

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 US$'000	2015 US$'000
INVESTING ACTIVITIES			
Purchase of short-term investments		(6,402,528)	(3,121,201)
Net cash outflow from acquisition of assets and collaboration arrangement	36	(303,103)	–
Purchase of property, plant and equipment		(110,370)	(172,204)
Purchase of available-for-sale investments		(59,597)	(227,711)
Acquisition of investments in associates		(54,750)	(2,811)
Capital injection in a joint venture		(772)	–
Payment for addition of investment properties		(100)	–
Proceeds on settlements of short-term investments		5,916,356	3,025,748
Withdrawal of bank deposits for investing purpose		108,931	202,533
Proceeds on disposal of property, plant and equipment		15,471	17,801
Proceeds on disposal of prepaid lease payments		946	1,388
Proceeds from disposal of financial assets classified as held-for-trading		–	4,993
NET CASH USED IN INVESTING ACTIVITIES		(889,516)	(271,464)
FINANCING ACTIVITIES			
Dividends paid		(218,599)	(192,359)
Bank borrowings repaid		(45,813)	(3,239,490)
Purchase of additional interests in a subsidiary		(259)	–
Bank borrowings raised		452,222	3,075,074
NET CASH FROM (USED IN) FINANCING ACTIVITIES		187,551	(356,775)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(467,609)	248,917
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,950,306	1,844,192
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(109,147)	(142,803)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		1,373,550	1,950,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

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

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. The Group provides a full range of manufacturing services to its customers in connection with the production of handsets. The principal activities of its principal subsidiaries are set out in note 43.

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

2. APPLICATION OF NEW AND AMENDMENTS TO 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 amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time:

Amendments to IAS 1	Disclosure initiative
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants
Amendments to IAS 27	Equity method in separate financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IFRSs	Annual improvements to IFRSs 2012–2014 cycle

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to 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]
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 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to IAS 7	Disclosure initiative[4]
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses[4]

[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 a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2017.

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 asset.

Key requirements of IFRS 9:

- 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 give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

IFRS 9 "Financial instruments" *(Continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39 "Financial instruments: Recognition and measurement" (the "IAS 39"), the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria).

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.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

IFRS 15 "Revenue from contracts with customers" *(Continued)*

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 International Accounting Standards Board (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 consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements of the Group.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

IFRS 16 "Leases" *(Continued)*

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. Under the 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 and operating cash flows respectively.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and 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 2016, the Group has non-cancellable operating lease commitments of approximately US$4,723,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

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

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits", respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in associates and joint ventures

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in which the investment is acquired.

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

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been net for each of the Group's activities, as describe below.

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

Service income is recognised when services are provided.

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

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

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

Investment properties

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

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Prepaid lease payments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal, its value in use and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

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

Leasehold land and building for own use

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned no likely to occur, which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

Retirement benefit costs and termination benefits

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. Defined benefit costs are categorised as follows:

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

The Group presents the first two components of defined benefit costs in profit or loss in the line item 'general and administrative expenses'. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contributions from employees to defined benefit plans

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

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

Inventories

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

Research and development expenditure

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

Financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Financial assets at FVTPL (Continued)

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial instruments: Recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL (including short-term investments and convertible notes) are stated at fair value, with any gain or loss on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other income, gains and losses' line item. Fair value is determined in the manner described in note 5.

Loans and receivables

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

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

AFS financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

AFS financial assets (Continued)

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

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

Impairment of financial assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Other financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Effective interest method

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

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Derecognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

Share-based payment arrangements

Equity-settled share-based payment transactions

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

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Significant influence over interests in associates

Although the Group only owns less than 20% equity interests in Diabell Co., Ltd. ("Diabell") and Mango International Group Limited ("Mango International"), the Group has significant influence over Diabell and Mango International by virtue of its right to appoint one out of five directors to the board of directors of Diabell and one out of third directors to the board of directors of Mango International (see note 20).

Classification of investments as joint ventures

位吉股份有限公司 (also known as Ways Transworld Inc.) ("Ways Transworld") and FIH RadioShack (Asia) Retail Holdings Limited ("FIH RadioShack") are limited companies whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that specify that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Ways Transworld and FIH RadioShack are classified as joint ventures of the Group (see note 21).

Key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty *(Continued)*

Valuation of investments in relation to the Acquisition and Collaboration Transactions (as defined in note 36)

Determining an estimation of the recoverable amount of the investments in relation to the Acquisition and Collaboration Transactions, the Group engages an independent professional valuer to perform such valuation. The value in use is determined based on the cash flow projection for the cash-generating unit (the "CGU") discounted to its present value and requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin taking into account the relevant industry growth forecasts, financial budgets approved by the directors from the management's experience from manufacturing of related feature phones and smart phones and management's expectations for the market development. Based on the assessment made by the management of the Company, no impairment was identified on these investments as at 31 December 2016. Where the future cash flows are less than expected, a material impairment loss may arise.

Impairment assessment of unlisted equity investments in relation to Jasper Infotech Private Limited

As at 31 December 2016, the carrying amount of the investment in Jasper Infotech Private Limited ("JIP") is US$200,004,000. Details of the investment are disclosed in note 19. In determining the impairment loss of unlisted equity investment in relation to JIP, the amount of impairment for JIP requires an estimation of the recoverable amounts for which the Group engages an independent professional valuer to perform such valuation, which makes reference to recent transactions of the shares of JIP in the market. After making such assessment, the directors of the Company are of the view that no impairment loss was made for JIP as at 31 December 2016. Where the recoverable amounts are less than expected, a material impairment loss may arise.

Fair value measurements and valuation processes

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

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

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

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

Key sources of estimation uncertainty *(Continued)*

Income taxes

As at 31 December 2016, a deferred tax asset of US$1,037,000 (2015: US$5,503,000) in relation to unused tax losses of US$4,149,000 (2015: US$20,897,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of US$791,787,000 (2015: US$795,387,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

As at 31 December 2016, an income tax of US$3,008,000 (2015: US$3,206,000) has been recognised in respect of the withholding tax provided for distributed profits of certain subsidiaries in the People's Republic of China (the "PRC"). No deferred tax has been provided for the undistributed profits of US$1,272,829,000 (2015: US$1,191,811,000) in remaining subsidiaries in the PRC as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Deferred tax assets were also recognised for other deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$84,597,000 (2015: US$167,781,000).

At 31 December 2016, 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$98,305,000 (2015: US$154,026,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 US$'000	2015 US$'000
Financial assets		
Fair value through profit or loss		
Convertible notes	80,940	–
Short-term investments	929,627	385,138
	1,010,567	385,138
Available-for-sale financial assets	354,181	255,939
Loans and receivables		
Trade and other receivables	2,360,033	1,500,897
Bank deposits	158,075	272,218
Bank balances and cash	1,373,550	1,950,306
	3,891,658	3,723,421
	5,256,406	4,364,498
Financial liabilities		
Fair value through profit or loss		
Derivatives (included in other payables)	4,554	5
At amortised cost		
Trade and other payables	2,406,685	1,514,608
Bank borrowings	418,596	13,367
	2,825,281	1,527,975
	2,829,835	1,527,980

(b) Financial risk management objectives and policies

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 29 for details of these borrowings). The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Cash flow interest rate risk in relation to variable-rate bank balances and deposits is considered insignificant as most of them are short-term in nature. Accordingly, no interest rate sensitivity analysis is prepared.

Currency risk

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

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

As at 31 December 2016, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US$118,807,000 (2015: US$1,737,000), and their fair values are estimated to be approximately US$4,554,000 liabilities (2015: US$5,000 liabilities), and are included as other payables (2015: other payables), at the end of the reporting period. The contracts mainly related to buying of US$ (2015: US$) with maturities in first quarter of the following year.

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

	2016 US$'000	2015 US$'000
Assets		
US$	**2,020,879**	1,585,867
Liabilities		
US$	**(1,424,704)**	(562,537)

The Group's bank borrowings of approximately US$30,096,000 (2015: US$13,367,000) at the end of the reporting period are denominated in Renminbi ("RMB") and Japanese Yen other than the functional currency of respective Group entities and are included in the monetary liabilities disclosed above.

5. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

Exchange rate sensitivity

At the end of the reporting period, in respect of monetary items (excluding derivatives) denominated in currency other than the functional currency of respective Group entities, if exchange rates of the functional currency against US$ had been appreciated/depreciated by 3% (2015: 3%) and all other variables were held constant, the Group's profit would decrease/increase by approximately US$15,740,000 (2015: US$30,528,000) for the year. In the current year, global currency market was tremendously volatile. Exchange rates of US$ versus other currencies fluctuated over the year which affected the fair values of the monetary items, such as forward foreign exchange contracts, trade and other receivables and bank borrowings of the Group, especially RMB, for which RMB/US$ exchange rate ranged between 0.1442 and 0.1548 (2015: ranged between 0.1634 and 0.1540) in the current year. The effect of such fluctuation is closely monitored by the management of the Group to minimise the related effect on the overall result of the Group.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2016 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. A major portion of the Group's trade debts are receivables from industry leaders or multinational customers with good financial background.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

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

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are one to six months (2015: six months) and the maturity periods of other financial liabilities are within three months. Out of the total bank borrowings, US$34,661,000 bank borrowing (2015: Nil) contains a repayment on demand clause.

As at 31 December 2016, the Group has available unutilised banking facilities of approximately US$1,833,074,000 (2015: US$2,170,148,000). There was no pledge of assets in relation to the banking facilities as at 31 December 2016 and 2015.

(c) Fair value measurements of financial instruments

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as different levels of the fair value hierarchy into which the fair value measurements are categorised (level 1 to 3) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements.

5. FINANCIAL INSTRUMENTS *(Continued)*

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

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

Financial assets/ financial liabilities	Fair value as at 31.12.2016 US$'000	Fair value as at 31.12.2015 US$000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Listed equity investments classified as available-for-sale investments in the consolidated financial statements	Listed equity investments – 77,477	Nil	Level 1	Quoted bid prices in an active market	N/A	N/A
Forward foreign exchange contracts classified as other receivables and other payables in the consolidated statement of financial position	Liabilities – 4,554	Liabilities – 5	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
Private fund classified as AFS investment in the consolidated financial statements	Investment in a private fund domiciled in the Cayman Islands – 7,114	Investment in a private fund domiciled in the Cayman Islands – 7,204	Level 2	Fair value derived from observable market values of underlying assets quoted by relevant stock exchanges at the end of the reporting period	N/A	N/A
Investment in interest bearing instruments classified as short-term investments designated as financial assets at FVTPL in the consolidated financial statements	Investment in interest bearing instruments – 929,627	Investment in interest bearing instruments – 385,138	Level 3	Income approach — discounted cash flow method was used to capture the present value of the expected return on a prudent basis, assumed to approximate the minimum return, based on the Group's experience with the deposits which have matured to date	Expected guaranteed interest rate, mainly taken into account different counterpart financial institution, which ranged from 2.85% to 4.00% (2015: 3.30% to 3.80%) per annum	The higher the expected guaranteed interest rate, the higher the fair value, and vice versa
CN I (defined in note 24) designated as financial assets at FVTPL in the consolidated financial statements	Convertible notes – 20,940	Nil	Level 3	Binomial option pricing model. Expected volatility: 22.59% (2015: nil) Share price: US$8.28 (2015: nil) Exercise price: US$3.92 (2015: nil)	Expected volatility of 22.59% (2015: nil) taking into account the historical volatility of share prices of the public listed companies that are considered to be comparable	An increase in the expected volatility used in isolation would result in an increase in the fair value measurement of the convertible notes
CN II (defined in note 24) designated as financial assets at FVTPL in the consolidated financial statements	Convertible notes – 60,000	Nil	Level 2	Fair value derived from market value of the shares of Mango International in recent investment transactions	N/A	N/A

There were no transfers between level 1 to 3 during the years ended 31 December 2016 and 2015.

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

5. FINANCIAL INSTRUMENTS *(Continued)*

(d) Financial assets and financial liabilities subject to offsetting

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

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

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

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

6. SEGMENT INFORMATION

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

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

Segment revenue and results

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

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

	2016 US$'000	2015 US$'000
Segment revenue (external sales)		
Asia	5,800,947	5,269,301
Europe	177,721	313,320
America	254,416	1,868,371
Total	6,233,084	7,450,992
Segment profit		
Asia	368,489	368,257
Europe	1,126	829
America	9,369	67,657
	378,984	436,743
Other income, gains and losses	160,062	175,533
General and administrative expenses	(201,100)	(187,813)
Research and development expenses	(117,259)	(114,633)
Impairment loss recognised for interests in associates	–	(8,112)
Interest expense on bank borrowings	(936)	(5,777)
Share of loss of associates	(1,687)	(5,172)
Share of loss of joint ventures	(1,153)	(605)
Profit before tax	216,911	290,164

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

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

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

	2016 US$'000	2015 US$'000
ASSETS		
Segment assets		
Allocated		
Asia	2,113,805	1,115,940
Europe	138,651	142,218
America	323,707	541,775
Total	2,576,163	1,799,933
Unallocated		
Property, plant and equipment	884,936	829,002
Inventories	362,711	308,475
Cash and bank deposits	1,200,976	1,769,560
Others	1,267,113	562,292
Corporate assets	674,559	535,753
Consolidated total assets	6,966,458	5,805,015
LIABILITIES		
Segment liabilities		
Allocated		
Europe	556	318
America	65,082	71,036
Total	65,638	71,354
Unallocated		
Trade and other payables	2,701,418	1,784,935
Others	44,761	45,978
Corporate liabilities	583,885	147,334
Consolidated total liabilities	3,395,702	2,049,601

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.

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

Other information

	Year ended 31 December 2016				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	6	6,788	103,576	110,370
Depreciation and amortisation	–	586	3,505	137,287	141,378
(Gain) loss on disposal and write-off of property, plant and equipment and prepaid lease payments	–	(73)	4,844	15,419	20,190
Allowance (reversal of allowance) for doubtful debts, net	765	–	(38)	–	727
Provision for warranty	16,159	–	–	–	16,159
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Impairment loss recognised for AFS investments	–	–	–	19,094	19,094
Impairment loss recognised for property, plant and equipment	–	–	–	401	401
Gain from changes in fair value of financial assets designated as FVTPL	–	–	–	(36,555)	(36,555)
Write down of inventories to net realisable value	–	–	–	27,399	27,399

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information (Continued)

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

6. SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
PRC (country of domicile)	4,824,773	6,995,450	774,092	869,155
USA	21	711	7,474	2,697
Mexico	110,730	131,729	11,428	14,072
India	1,281,403	138,893	23,595	25,536
Other countries	16,157	184,209	248,351	54,875
	6,233,084	7,450,992	1,064,940	966,335

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

Information about major customers

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

	2016 US$'000	2015 US$'000
Customer A[1]	1,211,409	667,093[2]
Customer B[1]	972,564	785,140
Customer C[1]	914,310	756,987
Customer D[1]	653,671	255,711[2]

[1] Revenue from provision of manufacturing services to customers located in Asia in connection with the production of handsets.

[2] They did not contribute over 10% of the total sales of the Group in 2015.

7. OTHER INCOME, GAINS AND LOSSES

	2016 US$'000	2015 US$'000
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank deposits	32,322	43,379
Service income	57,924	69,217
Sales of materials and scraps	24,301	22,652
Repairs and modifications of mouldings	13,354	25,666
Distribution income	3,573	–
Net foreign exchange gain	46,975	49,607
Government subsidies *(note)*	27,397	17,010
Rental income	15,686	9,233
Loss on disposal and write-off of property, plant and equipment	(20,808)	(1,429)
Gain from changes in fair value of financial assets designated as FVTPL	36,555	18,447
Loss from changes in fair value of financial assets classified as held-for-trading	–	(1,902)
(Loss) gain on deemed disposal of interests in associates	(180)	284
Gain on disposal of prepaid lease payments	618	224
Impairment loss recognised for AFS investments	(19,094)	(5,000)
Impairment loss recognised for property, plant and equipment	(401)	(2,554)
Others	(236)	(84)
	217,986	244,750

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

8. PROFIT BEFORE TAX

	2016 US$'000	2015 US$'000
Profit before tax has been arrived at after charging:		
Amortisation of prepaid lease payments (included in general and administrative expenses)	1,089	1,071
Depreciation of property, plant and equipment	139,646	138,848
Depreciation of investment properties	643	436
Total depreciation and amortisation	141,378	140,355
Staff costs		
Directors' emoluments	5,789	6,438
Retirement benefit scheme contributions (excluding directors)	52,590	56,223
Other staff costs	300,808	253,207
Equity-settled share-based payments	47,856	37,733
Total staff costs	407,043	353,601
Auditor's remuneration	898	912
Cost of inventories recognised as expense	5,847,977	7,041,549
Impairment loss recognised in respect of trade receivables, net	727	1
Provision for warranty	16,159	3,552
Write down of inventories to net realisable value	27,399	19,852

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

2016	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance-based or discretionary bonus US$'000 *(Note)*	Other emoluments: Retirement benefit scheme contributions US$'000	Total 2016 US$'000
Wang Chien Ho (appointed on 7 June 2016)	–	40	–	–	40
Tong Wen-hsin (resigned on 1 January 2017)	–	181	488	–	669
Chih Yu Yang (also acting as the chief executive)	–	88	4,685	–	4,773
Lee Jer Sheng (resigned on 7 June 2016)	–	15	190	–	205
Lau Siu Ki	31	9	–	–	40
Daniel Joseph Mehan	31	–	–	–	31
Chen Fung Ming	31	–	–	–	31
Lee Kuo Yu (resigned on 29 May 2016)	–	–	–	–	–
	93	333	5,363	–	5,789

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

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

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

The chief executive of the Company is also its director and therefore the emoluments of the chief executive have been disclosed above. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were for their services as directors of the Company.

Neither the chief executive nor any of the directors waived any emoluments and were paid as compensation for loss of office and as incentive to join or upon joining the Group during the years ended 31 December 2016 and 2015.

10. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2015: three) executive directors of the Company, whose emoluments are included in note 9 above. The emoluments of the remaining three (2015: two) individuals were as follows:

	2016 US$'000	2015 US$'000
Salaries and other benefits	192	112
Performance-related incentive payments	1,105	694
	1,297	806

Their emoluments were within the following bands:

	Number of employees	
	2016	2015
HK$2,000,001 to HK$2,500,000	1	–
HK$2,500,001 to HK$3,000,000	–	1
HK$3,000,001 to HK$3,500,000	–	1
HK$3,500,001 to HK$4,000,000	1	–
HK$4,000,001 to HK$4,500,000	1	–
	3	2

11. INCOME TAX EXPENSE

	2016 US$'000	2015 US$'000
Current tax		
— Hong Kong	–	–
— Other jurisdictions	65,761	48,413
— Withholding tax for distributed profit of investments in the PRC	3,008	3,206
	68,769	51,619
Under(over)provision in prior years		
— Hong Kong	–	–
— Other jurisdictions	196	(243)
	196	(243)
	68,965	51,376
Deferred tax *(note 22)*		
— Current year	11,735	10,124
	11,735	10,124
	80,700	61,500

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% (2015: 25%). Two of the Company's PRC subsidiaries were awarded with the Advanced — Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% during 2013 to 2016, respectively. Except these two subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2015: 25%).

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

11. INCOME TAX EXPENSE *(Continued)*

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.

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

	2016 US$'000	2015 US$'000
Profit before tax	216,911	290,164
Tax expense at the PRC income tax rate of 25% (2015: 25%) for the year *(note)*	54,228	72,541
Effect of different tax rates of subsidiaries	1,845	179
Effect of income taxed at concessionary tax rates	(874)	(344)
Tax effect of expenses not deductible for tax purpose	44,092	21,359
Tax effect of income not taxable for tax purpose	(7,675)	(12,637)
Tax effect of utilisation of tax losses/deductible temporary differences not recognised	(14,830)	(19,020)
Tax effect of utilisation of tax losses/deductible temporary differences previously not recognised	–	(4,985)
Tax effect of share of loss of associates	422	1,293
Tax effect of share of loss of joint ventures	288	151
Withholding tax for distributed profit of investments in the PRC	3,008	3,206
Under(over)provision in prior years	196	(243)
Income tax expense for the year	80,700	61,500

Note: The domestic income tax rate of 25% (2015: 25%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

12. DIVIDENDS

	2016 US$'000	2015 US$'000
Dividends recognised as distribution during the year		
2015 final — US$0.00869 (2015: US$0.00544) per share	68,599	42,359
Special — US$0.019 (2015: US$0.01926) per share	150,000	150,000
	218,599	192,359

Subsequent to the end of the reporting period, the board of directors of the Company has resolved to recommend the declaration and payment of a final dividend of US$0.00526 (2015: US$0.00869) per ordinary share of the Company (which in aggregate amounts to approximately US$42,000,000 (2015: US$68,599,000)), and a special dividend of US$0.01252 (2015: US$0.019) per ordinary share of the Company (which in aggregate amounts to approximately US$100,000,000 (2015: US$150,000,000)), respectively, for the year ended 31 December 2016, subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

	2016 US$'000	2015 US$'000
Earnings attributable to the owners of the Company		
Earnings for the purposes of basic and diluted earnings per share	138,321	229,066

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,830,115,393	7,745,752,041
Effect of dilutive potential ordinary shares relating to outstanding share awards issued by the Company	79,133,195	82,379,177
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,909,248,588	7,828,131,218

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2015	764,595	946,862	103,618	16,351	1,831,426
Exchange adjustments	(43,723)	(67,028)	(4,744)	(687)	(116,182)
Additions	5,909	145,693	4,713	15,889	172,204
Disposals	(2,641)	(137,926)	(10,244)	(2,512)	(153,323)
Transfers	7,675	13,598	–	(21,273)	–
Transfer to investment properties	(39,543)	–	–	–	(39,543)
At 31 December 2015	692,272	901,199	93,343	7,768	1,694,582
Exchange adjustments	(41,465)	(55,715)	(2,495)	(280)	(99,955)
Additions	22,100	75,277	11,981	1,012	110,370
Acquired on acquisition of assets and collaboration arrangement *(note 36)*	82,603	64,979	20,163	14	167,759
Disposals and write-off	(4,209)	(129,150)	(6,276)	(770)	(140,405)
Transfers	2,722	2,444	–	(5,166)	–
Transfer to investment properties	(172)	–	–	–	(172)
At 31 December 2016	753,851	859,034	116,716	2,578	1,732,179
DEPRECIATION AND IMPAIRMENT					
At 1 January 2015	285,490	564,789	73,429	–	923,708
Exchange adjustments	(18,195)	(38,639)	(3,912)	–	(60,746)
Charge for the year	31,417	105,746	1,685	–	138,848
Eliminated on disposals	(2,162)	(118,150)	(8,961)	–	(129,273)
Transfer to investment properties	(34,056)	–	–	–	(34,056)
Impairment loss recognised in profit or loss	–	2,554	–	–	2,554
At 31 December 2015	262,494	516,300	62,241	–	841,035
Exchange adjustments	(16,409)	(31,339)	(2,100)	–	(49,848)
Charge for the year	34,919	101,181	3,546	–	139,646
Eliminated on disposals and write-off	(3,733)	(94,850)	(5,543)	–	(104,126)
Impairment loss recognised in profit or loss	–	401	–	–	401
At 31 December 2016	277,271	491,693	58,144	–	827,108
CARRYING VALUES					
At 31 December 2016	476,580	367,341	58,572	2,578	905,071
At 31 December 2015	429,778	384,899	31,102	7,768	853,547

Included in the land and buildings are freehold land, located in Hungary, Brasil, Mexico and India (2015: Hungary, Brasil, Mexico and India), having an aggregate cost of approximately US$10,612,000 (2015: US$11,252,000). All buildings are situated outside Hong Kong.

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

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

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

At 31 December 2016, directors of the Company appointed independent professional appraisers to perform appraisals on the Group's principal manufacturing assets for the purpose of determining whether the assets have been impaired for those groups of assets that have impairment indications, such as changing market environment and determined that a number of those assets were impaired. Impairment losses of US$401,000 (2015: US$2,554,000) have been recognised in respect of plant and machinery (2015: plant and machinery) for the year.

15. INVESTMENT PROPERTIES

	US$'000
COST	
At 1 January 2015	2,416
Exchange adjustment	(1,823)
Transfer from property, plant and equipment	39,543
At 31 December 2015	40,136
Additions	100
Exchange adjustment	(803)
Transfer from property, plant and equipment	172
At 31 December 2016	39,605
DEPRECIATION	
At 1 January 2015	145
Exchange adjustment	(1,016)
Provided for the year	436
Transfer from property, plant and equipment	34,056
At 31 December 2015	33,621
Exchange adjustment	(932)
Provided for the year	643
At 31 December 2016	33,332
CARRYING VALUES	
At 31 December 2016	6,273
At 31 December 2015	6,515

15. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties at 31 December 2016 was US$9,333,000 (2015: US$9,270,000). The fair value has been arrived at based on a valuation carried out by an independent valuer not connected with the Group. The fair value was determined by reference to recent market prices for similar properties in the same locations and conditions.

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

16. PREPAID LEASE PAYMENTS

The amount represents land use rights in the PRC, Vietnam and India (2015: the PRC and India):

	2016 US$'000	2015 US$'000
Long leases	45,962	37,938
Medium-term leases	4,210	4,379
	50,172	42,317

17. GOODWILL

	US$'000
COST	
At 1 January 2015 and 31 December 2015	–
Arising on acquisition of assets and collaboration arrangement *(note 36)*	83,235
At 31 December 2016	83,235

Valuation and allocation of goodwill

For the purposes of impairment testing, goodwill on a provisional basis has been allocated to the CGU, relating to the acquisition and collaboration transactions as defined in note 36, comprising operation through certain subsidiaries, including the manufacturing of feature phones and smart phones.

During the year ended 31 December 2016, management of the Group 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 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.

18. INTANGIBLE ASSETS

The intangible assets represent development costs arising on the Acquisition and Collaboration Transactions as defined in note 36, which are estimated to have definite useful lives of 2 years and amortised on a straight-line basis.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2016 US$'000	2015 US$'000
Listed equity investments:		
Equity investment listed in Hong Kong	71,510	–
Equity investment listed in Taiwan	5,967	–
	77,477	–
Unlisted equity investments *(note a)*	269,590	248,735
Investment in a private fund *(note b)*	7,114	7,204
Total of AFS investments analysed for reporting purposes as non-current assets	354,181	255,939

Notes:

(a) At 31 December 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.

The largest investment included in the unlisted equity investments is the Group's investment in Jasper Infotech Private Limited ("JIP"), a private limited company incorporated in India, with a carrying amount of US$200,004,000. JIP is engaged in owning and operating the website namely www.snapdeal.com.

On 16 August 2016, the Group entered into a share subscription agreement to acquire 358,996 preference shares in Hike Global Pte. Ltd. ("Hike") at a cash consideration of approximately US$49,997,000. Hike is a private limited company incorporated in Singapore and principally engaged in providing an instant peer-to-peer messaging application on smart phones in India, details of which are set out in the Company's announcement dated 17 August 2016.

(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.

During the year ended 31 December 2016, an impairment loss of US$19,094,000 (2015: US$5,000,000) was recognised for equity investments as the directors of the Company considered that no future cash flow would be generated from such investments which are of no market value.

20. INTERESTS IN ASSOCIATES

	2016 US$'000	2015 US$'000
Cost of investments in associates, less impairment		
Listed outside Hong Kong	–	20,324
Unlisted	74,672	18,422
Share of post-acquisition loss and other comprehensive expense, net of dividend received	(2,293)	(9,387)
	72,379	29,359
Fair value of listed investments	N/A	40,668

20. INTERESTS IN ASSOCIATES *(Continued)*

At 31 December 2016 and 2015, the Group had interests in the following associates:

Name of associate	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share/ interest held	Proportion of nominal value of issued capital/ interest held by the Group		Proportion of voting power held by the Group		Principal activity
					2016	2015	2016	2015	
Ways Technical Corp., Ltd. ("Ways Technical") *(note a)*	Limited company	Taiwan	Taiwan	Ordinary	N/A	13.04%	N/A	28.57%	Providing special coating surface treatment services to branded handheld devices (such as handsets and GPS) manufacturers or original designing and manufacturing companies
migme Limited ("migme") (note b)	Limited company	Australia	Singapore	Ordinary	N/A	19.96%	N/A	28.57%	Operating a multi-platform mobile and internet business focusing on social networking and entertainment in emerging markets
Diabell (note c)	Limited company	Republic of Korea ("Korea")	Korea	Ordinary	19.998%	19.998%	20%	20%	Designing, developing,manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products
CExchange, LLC	Limited liability company	USA	USA	Class A membership interest	30%	30%	30%	30%	Engaging in the business of consumer electronics, including electronic trade-in and buy-back (including purchasing and reselling), refurbish management, overstock and return goods management and purchasing and sales representation
Rooti Labs Limited	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. ("Gengde")	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 (note d)	Limited company	BVI	Hong Kong	Ordinary	12.5%	–	33.33%	–	Engaging in the provision of mobile devices to hotels and related hospitality technology solutions

20. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

Mango International is the only material associate to the Group, which is accounted for using the equity method in these consolidated financial statements.

Mango International

	Period from 14.10.2016 to 31.12.2016 US$'000
Revenue	1,711
Loss for the period	(7,499)
Total comprehensive expense for the period	(7,242)
Group's share of loss and other comprehensive expense	(818)

Aggregate information of associates that are not individually material

	Year ended 31.12.2016 US$'000	Year ended 31.12.2015 US$'000
Total revenue	282,718	112,541
Total profit (loss) for the year	9,429	(27,990)
Total other comprehensive expense	(7,931)	(2,556)
Group's share of loss and other comprehensive expense of associates for the year	(3,075)	(5,521)

20. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates *(Continued)*

Aggregate information of associates that are not individually material (Continued)

Notes:

(a) Ways Technical's shares are traded on the Taiwan OTC Market. During the year ended 31 December 2016, the Group ceased to exercise significant influence over Ways Technical because it ceased to have the right to appoint two out of seven directors of Ways Technical on 1 July 2016. Accordingly, the Group accounted for the interest in Ways Technical as a listed AFS investment and a gain on deemed disposal of approximately US$1,244,000 was recognised in profit or loss (included in other income) during the year ended 31 December 2016.

(b) migme's shares are traded on the Australian Securities Exchange. In the opinion of the directors of the Company, the Group is able to exercise significant influence over migme because it has the right to appoint two out of seven directors of migme. During the year ended 31 December 2016, migme issued some new ordinary shares for services provided by employees and also offered several private placements of its ordinary shares. The Group participated in several private placements and acquired 4,914,810 ordinary shares in migme at the total cash consideration of approximately AU$1,966,000 (equivalent to approximately US$1,500,000) (the "Subscription"). As a result, the Group's interest in migme decreased from 19.96% to 18.82%. The Subscription resulted in a gain on deemed disposal of an associate of approximately US$2,113,000, which was recognised in profit or loss (included in other income) during the year ended 31 December 2016. On 7 December 2016, the Group ceased to exercise significant influence over migme because it ceased to have the right to appoint two out of seven directors of migme. Accordingly, the Group accounted for the interest in migme as a listed AFS investment and a loss on deemed disposal of approximately of US$3,537,000 was recognised in profit or loss (included in other income) during the year ended 31 December 2016.

(c) Diabell is a private limited company established in Korea. In the opinion of the directors of the Company, the Group is able to exercise significant influence over Diabell because it has the right to appoint one out of five directors of Diabell.

(d) Mango International is a private limited company establish in the BVI. During the year ended 31 December 2015, the Group entered in a share subscription agreement (the "Mango Agreement") to acquired 766,056 ordinary shares in Mango International at a cash consideration of US$3,000,000 which was classified as an available-for-sale investment as at 31 December 2015. During the year ended 31 December 2016, the Group entered into a share subscription agreement to acquire 7,151,661 ordinary shares in Mango International at a cash consideration of US$53,250,000, details of which are set out in the Company's announcement dated 28 September 2016. As a result, the Group's interest in Mango International increased from 1.36% to 12.5%. In the opinion of the directors of the Company, the Group is able to exercise significant influence over Mango International because it has the right to appoint one out of three directors to the board of directors of Mango International since 14 October 2016.

    Under the supplementary terms enclosed to the Mango Agreement, the Group has a right to redeem the investments in Mango International under certain circumstances. The directors of the Company is of the view that the fair value of such redemption right is insignificant to recognise at this stage.

21. INTERESTS IN JOINT VENTURES

	2016 US$'000	2015 US$'000
Cost of unlisted investments in joint ventures	8,037	7,265
Share of post-acquisition loss and other comprehensive expense	(4,491)	(3,368)
	3,546	3,897

At 31 December 2016 and 2015, the Group had interests in the following joint ventures:

Name of associate	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held by the Group		Principal activity
					2016	2015	2016	2015	
Ways Transworld	Limited company	Taiwan	Taiwan	Ordinary	50%	50%	50%	50%	Designing and manufacturing plastic molds for handheld devices
FIH RadioShack	Limited company	Hong Kong	PRC	Ordinary	51%	51%	60% *(note)*	60% *(note)*	Sale of consumer electronics products and ancillary services

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

22. 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 2015	(14,919)	(3,018)	2,391	(8,224)	(6,481)	(30,780)	(61,031)
Charge (credit) to profit or loss for the year	7,102	(1,157)	384	1,830	298	1,667	10,124
Exchange adjustments	651	232	(372)	891	361	2,212	3,975
At 31 December 2015	(7,166)	(3,943)	2,403	(5,503)	(5,822)	(26,901)	(46,932)
Acquisition of assets and collaboration arrangement *(note 36)*	–	–	3,800	–	–	3,418	7,218
(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	(7,131)	(4,202)	10,900	(1,037)	(5,004)	(18,362)	(24,836)

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

22. DEFERRED TAXATION *(Continued)*

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

	2016 US$'000	2015 US$'000
Deferred tax assets	(32,426)	(47,082)
Deferred tax liabilities	7,590	150
	(24,836)	(46,932)

At 31 December 2016, 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$98,305,000 (2015: US$154,026,000) 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$795,936,000 (2015: US$816,284,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$4,149,000 (2015: US$20,897,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$791,787,000 (2015: US$795,387,000) 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 2020.

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$1,272,829,000 (2015: US$1,191,811,000) 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.

23. DEPOSIT FOR ACQUISITION OF PREPAID LEASE PAYMENTS

In 2010, the Group disposed of certain prepaid lease payments amounted to RMB190,699,000 (equivalent to approximately US$27,499,000 and US$30,700,000 as at 31 December 2016 and 2015, respectively) in exchange for other land use rights in the PRC. A receivable of the equivalent amount had been recorded as deposit paid for acquisition of prepaid lease payments as at 31 December 2016 and 2015.

24. 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"). The Group is entitled at any time after the date of issue up to the 30 June 2017 to convert in whole or in part the outstanding principal amount of the convertible notes into ordinary shares of Mango International. Unless early converted, all outstanding principal amount, together with any then unpaid interest accrued from 1 January 2017 shall be due and payable in one lump sum on 30 June 2017.

During the year ended 31 December 2016, the Group also invested in an unlisted convertible notes with principal amount of US$60,000,000, non-interest bearing with a maturity date of 14 April 2018 (the "Maturity Date"), issued by Mango International (the "CN II"). In exchange for the 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.

CN I comprised debt component and embedded derivatives being the conversion option and the early redemption option. CN II comprised embedded derivatives being the conversion option and the early redemption option. Both CN I and CN II are designated as financial assets at fair value through profit or loss by the directors of the Company and a gain from change in fair value of US$10,940,000 is recognised during the year ended 31 December 2016.

25. INVENTORIES

	2016 US$'000	2015 US$'000
Raw materials	222,868	155,729
Work-in-progress	71,819	73,922
Finished goods	80,649	102,985
	375,336	332,636

Inventories carried at net realisable value were as follows:

	2016 US$'000	2015 US$'000
Raw materials	180,939	95,962
Work-in-progress	61,805	79,302
Finished goods	60,290	33,945
	303,034	209,209

26. TRADE AND OTHER RECEIVABLES

	2016 US$'000	2015 US$'000
Trade receivables	2,227,704	1,473,407
Less: Allowance for doubtful debts	(737)	(38)
	2,226,967	1,473,369
Other taxes recoverables	91,576	26,025
Other receivables, deposits and prepayments	176,605	95,967
Total trade and other receivables	2,495,148	1,595,361

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

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

	2016 US$'000	2015 US$'000
0–90 days	2,208,489	1,357,778
91–180 days	11,905	107,902
181–360 days	2,876	6,633
Over 360 days	3,697	1,056
	2,226,967	1,473,369

As at the end of the reporting period, 99% (2015: 92%) of the Group's trade receivables are neither past due nor impaired, and they are mainly receivables from certain global handset manufacturers that the Group considers have good credit standing. The Group seeks to maintain strict control over the creditability of customers and their respective outstanding receivables. Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customers. The creditability of customers is reviewed regularly.

As at 31 December 2016, trade receivables with the aggregate carrying amount of approximately US$18,478,000 (2015: US$115,591,000) that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2016 US$'000	2015 US$'000
91–180 days	11,905	107,902
181–360 days	2,876	6,633
Over 360 days	3,697	1,056
	18,478	115,591

Movement in the allowance for doubtful debts:

	2016 US$'000	2015 US$'000
Balance at beginning of the year	38	44
Impairment losses recognised on receivables	765	39
Amounts recovered during the year	(38)	(38)
Exchange adjustments	(28)	(7)
Balance at end of the year	737	38

27. SHORT-TERM INVESTMENTS

	2016 US$'000	2015 US$'000
Investments in interest bearing instruments designated as financial assets at FVTPL	929,627	385,138

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

28. TRADE AND OTHER PAYABLES

	2016 US$'000	2015 US$'000
Trade payables	2,102,671	1,251,143
Accruals and other payables	607,241	605,967
Deferred consideration *(note)*	60,000	–
	2,769,912	1,857,110

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 24.

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

	2016 US$'000	2015 US$'000
0–90 days	2,046,576	1,180,589
91–180 days	37,968	60,489
181–360 days	6,749	6,802
Over 360 days	11,378	3,263
	2,102,671	1,251,143

29. BANK BORROWINGS

	2016 US$'000	2015 US$'000
Bank loans	418,596	13,367
Analysis of bank borrowings by currency:		
RMB	24,081	–
Japanese Yen ("JPY")	6,015	–
US$	388,500	13,367
	418,596	13,367

The bank borrowings as at 31 December 2016 are unsecured, obtained with original maturity of one to six months (2015: six months) and carry interest at fixed interest rate ranging from 0.45% to 8% (2015: 1.10%) per annum. Out of total bank borrowing, bank borrowing of US$34,661,000 contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 1.83% per annum (2015: 1.10% per annum).

During the year ended 31 December 2016, the interest expense of US$936,000 (2015: US$5,777,000) represented the interest on bank borrowings wholly repayable within five years.

30. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2015, 31 December 2015 and 31 December 2016	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2015	7,789,472,197	311,579
Issue pursuant to the share scheme *(note 42(b))*	104,230,955	4,169
Balance at 31 December 2015	7,893,703,152	315,748
Issue pursuant to the share scheme *(note 42(b))*	91,551,539	3,662
Balance at 31 December 2016	7,985,254,691	319,410

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

31. RESERVES

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

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

32. DERIVATIVES

Currency derivatives

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

During the current year, a loss from the forward foreign exchange contracts of US$4,554,000 (2015: loss of US$5,000) was recognised in profit or loss and included in other income, gains and losses.

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

	2016 US$'000	2015 US$'000
US$	**118,807**	1,737

As at 31 December 2016, the fair value of the Group's currency derivatives is estimated to be approximately US$4,554,000 liabilities (2015: US$5,000 liabilities), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates, and is included as other payables (2015: other payables) at the end of the reporting period. The contracts outstanding as at 31 December 2016 mainly related to buying of US$ (2015: US$) with maturities in the first quarter of 2017 (2015: first quarter of 2016).

33. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry interest at prevailing market rate of 4.72% (2015: 3.22%) per annum on average, with original maturity of over three months.

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate of 1.62% (2015: 1.54%) per annum on average.

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

	2016 US$'000	2015 US$'000
US$	638,078	1,013,356
RMB	518,275	923,894
New Taiwan Dollar	50,633	78,688
Others	324,639	206,586
	1,531,625	2,222,524

34. PROVISION

	2016 US$'000	2015 US$'000
At 1 January	19,093	27,985
Exchange adjustments	(1,194)	(954)
Provision for the year	16,159	3,552
Utilisation of provision	(12,886)	(11,490)
At 31 December	21,172	19,093

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.

35. DEFERRED INCOME

	2016 US$'000	2015 US$'000
Government subsidies	23,867	27,219

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

36. 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 "Discloseable transaction in respect of acquisition of certain assets of feature phone business" and "Amendment to discloseable 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"). Pursuance 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 is of the view that the assets from the Acquisition together with the arrangement under the Collaboration are measured as a cash-generating unit. The Acquisition and Collaboration Transactions have been accounted for using the acquisition method.

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

The purchase consideration relating to the Acquisition comprised the base purchase price of US$330,000,000 plus adjustments for movement of the bank balances and cash and inventories between the agreement date and closing date in accordance with the relevant agreement between the Company, Microsoft Mobile Oy and HMD.

Details of consideration are as follows:

	US$'000
Base purchase price	330,000
Adjustment for inventories	(16,492)
Adjustment for loan payable repaid to seller	(143,322)
Bank balances and cash	88,462
Consideration satisfied by cash	258,648

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

	US$'000
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	(7,218)
	175,413

The fair value of trade and other receivables at the date of acquisition amounted to US$15,475,000. The gross contractual amounts of those trade and other receivables acquired amounted to US$15,475,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows is expected to be fully collected.

The fair value of intangible assets arising from the Acquisition and Collaboration Transactions of US$19,000,000 represents development costs determined by the management of the Company with reference to the valuation report, based on income approach, and prepared by an independent professional valuer as at 30 November 2016. That calculation uses cash flow projections based on financial budgets approved by management covering the estimated useful lives of the intangible assets at a discount rate of 16.39% per annum. Other key assumptions of the value in use calculations relating to the estimation of cash inflows/outflows included budgeted sales and gross margin. Such estimation is based on management's expectation for the market development.

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

Goodwill arising on the Acquisition and Collaboration Transactions (determined on a provisional basis):

	US$'000
Consideration transferred	258,648
Less: Provisional fair values of identifiable net assets acquired	(175,413)
Provisional goodwill arising on acquisition	83,235

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)

Costs amounting to approximately US$26,513,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the general and administrative expenses line item in the consolidated statement of profit or loss and other comprehensive income.

The goodwill on a provisional basis arising 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. None of the goodwill arising on the Acquisition and Collaboration Transactions is expected to be deductible for tax purposes.

The goodwill on a provisional basis arising from the Acquisition and Collaboration Transactions amounting to US$83,235,000 is determined, awaiting the completion of the identification of separable intangible assets and valuation of the intangible assets acquired.

Other income and loss attributable to the Acquisition and Collaboration Transactions during the year are US$2,793,000 and US$10,865,000, respectively. Had the above acquisition completed on 1 January 2016, total other income of the Group and group profit for the year ended 31 December 2016 would have been US$318,303,000 and US$143,432,000, respectively. The information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the above acquisition been completed on 1 January 2016, respectively, nor is it intended to be a projection of future results.

In determining the illustrative other income and profit of the Group, had the above acquisition been completed at the beginning of the current year, the directors would have calculated depreciation of plant and equipment acquired on the basis of fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

37. CAPITAL COMMITMENTS

	2016 US$'000	2015 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	8,443	16,947

38. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2016 US$'000	2015 US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	33,177	38,634

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

	2016 US$'000	2015 US$'000
Within one year	4,037	5,874
In the second to fifth years inclusive	686	1,168
	4,723	7,042

Leases are negotiated, and rentals are fixed, for an average term of one to three years (2015: one to three years).

The Group as lessor

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

39. MAJOR NON-CASH TRANSACTIONS

During the year, the Group acquired CN I by delivery of inventory with an aggregate value of US$10,000,000.

In addition, part of the considerations for the purchase of several unlisted equity investments during the year comprised inventories and services of approximately US$2,374,000.

40. RELATED PARTY TRANSACTIONS

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

	2016 US$'000	2015 US$'000
Hon Hai		
Sales of goods	226	448
Purchase of goods	91,120	42,155
Purchase of property, plant and equipment	2,670	4,685
Sales of property, plant and equipment	4	1,028
Lease expense – real properties	778	761
Subcontracting income	25,594	44,097
Consolidated services and subcontracting expense	1,724	1,230
General service income	327	–
General service expense	–	1,059
Subsidiaries of Hon Hai		
Sales of goods	684,366	459,236
Purchase of goods	868,448	626,225
Purchase of property, plant and equipment	51,087	95,009
Sales of property, plant and equipment	10,750	8,639
Lease income – real properties	2,090	2,039
Lease income – non-real properties	335	223
Lease expense – real properties	2,604	1,890
Lease expense – non-real properties	14,925	15,692
Subcontracting income	48,191	76,501
Consolidated services and subcontracting expense	220,559	189,057
General service income	1,190	1,450
General service expense	15,031	19,141
Associates of Hon Hai		
Sales of goods	184,347	21,018
Purchase of goods	181,972	340,407
Purchase of property, plant and equipment	5,947	45
Sales of property, plant and equipment	79	186
Lease income – non-real properties	28	29
Lease expense – real properties	14	28
Lease expense – non-real properties	14	–
Subcontracting income	3	72
Consolidated services and subcontracting expense	12,383	14,467
General service income	–	26
General service expense	143	525

40. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2016 US$'000	2015 US$'000
Trade receivables:		
Hon Hai	3,304	6,432
Subsidiaries of Hon Hai	300,911	168,697
Associates of Hon Hai	2,060	7,331
	306,275	182,460
Other receivables:		
Hon Hai	–	13
Subsidiaries of Hon Hai	3,633	4,483
Associates of Hon Hai	3,568	117
	7,201	4,613
	313,476	187,073
Trade payables:		
Hon Hai	44,672	12,706
Subsidiaries of Hon Hai	686,565	260,704
Associates of Hon Hai	65,712	50,004
	796,949	323,414
Other payables:		
Hon Hai	85	3,981
Subsidiaries of Hon Hai	15,972	16,062
Associates of Hon Hai	1,104	57
	17,161	20,100
	814,110	343,514

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

(c) Compensation of key management personnel

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

	2016 US$'000	2015 US$'000
Short-term benefits	2,449	2,227
Share-based payments	5,871	6,569
	8,320	8,796

40. RELATED PARTY TRANSACTIONS *(Continued)*

(d) During the year, the Group enter into the following transactions with associates and a joint venture (2015: associates and a subsidiary of a joint venture):

	2016 US$'000	2015 US$'000
Sales of goods	15,102	8,298
Purchase of goods	173,948	48,788
Sales of property, plant and equipment	–	1,781
Other income	22,760	7,355
Other expense	1,105	–

The amounts due to associates and a joint venture were US$43,690,000 (2015: the amounts due to associates and a subsidiary of a joint venture were US$19,941,000), which were included in other payables as at 31 December 2016.

41. RETIREMENT BENEFITS PLANS

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

Certain subsidiaries of the Company operate defined benefit plans in Taiwan and Korea. Under the schemes, the employees are entitled to retirement benefits on attainment of a retirement age ranging from 55 to 60. The most recent actuarial valuations of plan assets and the present values of the defined benefit obligations were carried out at 31 December 2016 by independent valuers, Greatfine Wealth Management Consulting Inc. and Aon Hewitt Korea, respectively. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The principal actuarial assumptions used were as follows:

	2016	2015
Discount rate	1.50%–2.20%	1.50%–2.47%
Expected rate of salary increases	3.00%–5.00%	4.00%–5.00%

The actuarial valuations showed that the market value of plan assets was US$6,031,000 (2015: US$6,086,000) and that the actuarial value of these assets represented 128% (2015: 110%) of the benefits that had accrued to members.

41. RETIREMENT BENEFITS PLANS *(Continued)*

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

	2016 US$'000	2015 US$'000
Service cost:		
Current service cost	299	298
Net interest expense (income)	(3)	(28)
Components of defined benefit costs recognised in profit or loss	296	270
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	10	5
Actuarial gains and losses arising from changes in demographic assumptions	92	31
Actuarial gains and losses arising from changes in financial assumptions	(603)	861
Actuarial gains and losses arising from experience adjustments	(255)	(299)
Components of defined benefit costs recognised in other comprehensive income	(756)	598
Total	(460)	868

Of the charge for the year, US$296,000 (2015: US$270,000) has been included in administrative expenses.

The actual return on plan assets was US$93,000 (2015: US$136,000) for the year ended 31 December 2016.

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

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

	2016 US$'000	2015 US$'000
Present value of funded defined benefit obligations	4,726	5,556
Fair value of plan assets	(6,031)	(6,086)
Surplus	(1,305)	(530)
Net asset arising from defined benefit obligations (included in other receivables)	(1,305)	(530)

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

42. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

In order to ensure the continuity of a share option scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a share option scheme (the " Option Scheme") on 26 November 2013, which will expire on 25 November 2023, unless otherwise terminated in accordance with its terms.

Under the Option Scheme the board of directors of the Company or its duly authorised officer(s) or delegate(s) may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The option granted will be subject to vesting period (as determined by the board of directors of the Company or its duly authorised officer(s) or delegate(s) at the time of granting the option) of up to six years or such other period which must not be more than ten years from the date of grant of the relevant option. In addition, the Company may, from time to time, grant share options to third party service providers for services provided by them to the Group.

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

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

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

As at 31 December 2016 and 2015, no options have been granted under the Option Scheme.

No expense in relation to the share options granted by the Company was recognised by the Group for the year ended 31 December 2016 and 2015.

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

(b) Other share-based payment plan

In order to ensure the continuity of a share scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a share scheme (the "Share Scheme") on 26 November 2013 pursuant to which the Company might grant free shares to the directors or employees of the Company or its subsidiaries or third party service providers including employees of Hon Hai and any of its subsidiaries.

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

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

The Group recognised total expense of US$47,856,000 (2015: US$37,733,000) for the year ended 31 December 2016 in relation to the ordinary shares awarded by the Company under the Share Scheme.

43. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2016 and 2015:

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2016	2015	2016	2015	
Chiun Mai Communication Systems, Inc.	Limited company	Taiwan	NT$1,500,000,000	–	–	86.82%	86.173%	Design and manufacture of handsets
Extra Right Enterprises Limited	Limited company	British Virgin Islands/PRC	US$1	–	–	100%	100%	Provision of services to group companies
FIH (Hong Kong) Limited	Limited company	Hong Kong/PRC	HK$155,146,001	–	–	100%	100%	Trading of handsets
FIH Co., Ltd.	Limited company	Taiwan	NT$1,000,000	100%	100%	–	–	Provision of services to group companies
FIH Mexico Industry SA de CV	Limited company	Mexico	MXN2,007,283,685	–	–	100%	100%	Manufacture of handsets

43. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2016	2015	2016	2015	
富智康精密組件（北京）有限公司 (FIH Precision Component (BeiJing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$68,800,000	–	–	100%	100%	Manufacture of handsets
宏訊電子工業（杭州）有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$126,800,000	–	–	100%	100%	Manufacture of handsets
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$178,520,000	–	–	100%	100%	Manufacture of handsets
S&B Industry, Inc.	Corporation	USA	US$31,594,767	–	–	100%	100%	Repair services
Success World Holdings Limited	Limited company	Hong Kong	HK$1,049,044,500	100%	100%	–	–	Investment holding
Sutech Industry Inc.	Corporation	USA	US$10,000	–	–	100%	100%	Provision of logistics services to group companies
FIH do Brasil Indústria e Comércio de Eletrônicos Ltda.	Limited company	Brasil	BRL550,532,590	–	–	100%	100%	Manufacture of handsets
富智康（南京）通訊有限公司 (FIH (Nan Jing) Communications Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$17,500,000	–	–	100%	100%	Research and development; sales
貴州富智康精密電子有限公司	Limited company	PRC	RMB10,000,000	–	–	100%	100%	Research and development; sales
Rising Stars Mobile India Private Limited	Limited company	India	INR648,299,880	–	–	100%	100%	Manufacture of handsets
富泰京精密電子（北京）有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$75,000,000	–	–	100%	100%	Manufacture of handsets

43. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2016	2015	2016	2015	
富泰京精密電子（煙台）有限公司 (Futaijing Precision Electronics (Yantai) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$20,000,000	–	–	100%	100%	Manufacture of handsets
富智康精密電子（廊坊）有限公司 (FIH Precision Electronics (Lang Fang) Co., Ltd.)	Sino-foreign jointly owned enterprise	PRC	US$475,500,000	–	–	100%	100%	Manufacture of handsets
富智康（成都）通訊科技有限公司 (FIH (Chengdu) Communication Technology Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$7,600,000	–	–	100%	100%	Research and development; sales
南寧富泰宏精密工業有限公司 (Nanning Futaihong Precision Industrial Co., Ltd.*)	Sino-foreign jointly owned enterprise	PRC	US$50,000,000	–	–	100%	100%	Manufacture of handsets and communication products
衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd.*)	Limited company	PRC	RMB50,000,000	–	–	100%	100%	Manufacturing, import and export
FIH Technology Korea Ltd.	Limited company	Korea	KRW1,100,000,000	–	–	100%	100%	Research and development; project management
KSB International Limited	Limited company	Korea	KRW50,000,000	–	–	100%	100%	Provision of logistics services to group companies; sales
TNS Mobile Oy	Limited company	Finland	EUR2,500	–	–	100%	–	Distribution of handsets/ tablets; sales
Fushan Technology (Vietnam) Limited Liability Company	Limited company	Vietnam	VND682,440,000,000	–	–	100%	–	Manufacture of handsets
TNS Mobile International Oy	Limited company	Finland	EUR2,500	–	–	100%	–	Marketing

* *for identification purposes only*

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

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

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 US$'000	2015 US$'000
ASSETS		
Investments in subsidiaries	1,482,697	1,482,697
Other receivables	431	743
Prepayments	82	131
Amounts due from subsidiaries	1,402,841	1,321,982
Bank balances and cash	28,421	198,734
	2,914,472	3,004,287
LIABILITIES		
Bank borrowings	412,581	–
Other payables	3,134	1,154
Amounts due to subsidiaries	130,864	693,551
	546,579	694,705
NET ASSETS	2,367,893	2,309,582
CAPITAL AND RESERVES		
Share capital	319,410	315,748
Share premium	1,166,951	1,139,789
Reserves	881,532	854,045
TOTAL EQUITY	2,367,893	2,309,582

Under the Companies Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to approximately US$2,070,020,000 (2015: US$2,029,169,000), consisted of share premium of approximately US$1,166,951,000 (2015: US$1,139,789,000) and retained profits of approximately US$903,069,000 (2015: US$889,380,000).

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

Movement in reserves

	Share premium US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2015	1,090,444	(14,165)	880,345	1,956,624
Profit for the year	–	–	201,394	201,394
Issue of ordinary shares under Share Scheme	49,345	(53,514)	–	(4,169)
Payment made for equity-settled share-based payments	–	(5,389)	–	(5,389)
Recognition of equity-settled share-based payments	–	37,733	–	37,733
Dividends recognised as distribution	–	–	(192,359)	(192,359)
Balance at 31 December 2015	1,139,789	(35,335)	889,380	1,993,834
Profit for the year	–	–	232,288	232,288
Issue of ordinary shares under Share Scheme	27,162	(30,824)	–	(3,662)
Payment made for equity-settled share-based payments	–	(3,234)	–	(3,234)
Recognition of equity-settled share-based payments	–	47,856	–	47,856
Dividends recognised as distribution	–	–	(218,599)	(218,599)
Balance at 31 December 2016	1,166,951	(21,537)	903,069	2,048,483

The Company's statement of financial position was approved and authorised for issue by the board of directors on 9 March 2017:

CHIH YU YANG
DIRECTOR

WANG CHIEN HO
DIRECTOR

FINANCIAL SUMMARY

	For the year ended 31 December				
	2012 (US$'million)	2013 (US$'million)	2014 (US$'million)	2015 (US$'million)	**2016 (US$'million)**
Results					
Revenue	5,239.80	4,996.95	6,829.89	7,450.99	**6,233.08**
(Loss) profit from operations	(318.99)	107.06	278.59	295.94	**217.85**
Interest expenses	(11.44)	(6.12)	(10.44)	(5.78)	**(0.94)**
(Loss) profit before tax	(330.43)	100.94	268.15	290.16	**216.91**
Income tax credit (expense)	14.37	(23.66)	(98.84)	(61.50)	**(80.70)**
(Loss) profit after tax and before non-controlling interests	(316.06)	77.28	169.31	228.66	**136.21**
Non-controlling interests	(0.36)	0.43	0.13	0.41	**2.11**
Net (Loss) profit for the year	(316.42)	77.71	169.44	229.07	**138.32**

	As at 31 December				
	2012 (US$'million)	2013 (US$'million)	2014 (US$'million)	2015 (US$'million)	**2016 (US$'million)**
Assets and liabilities					
Total assets	5,088.48	5,585.77	6,822.52	5,805.01	**6,966.45**
Total liabilities	(1,561.92)	(1,877.28)	(2,892.65)	(2,049.60)	**(3,395.70)**
Non-controlling interests	(10.76)	(9.82)	(9.15)	(8.47)	**(6.12)**
Capital and reserves	3,515.80	3,698.67	3,920.72	3,746.94	**3,564.63**

CORPORATE GOVERNANCE REPORT

This corporate governance report is issued as of 9 March 2017. The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2016 to 31 December 2016.

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 current financial year ending 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. Mr. Chih has been the Company's Executive Director and Chief Executive Officer since 28 August 2009 and 26 July 2012, respectively. The biographical details of Mr. Chih are set out in the section headed "Profile of Directors and Senior Management". In these positions, Mr. Chih has accumulated extensive knowledge and experience in both the Company and the industry. The Board believes that this interim arrangement not only is crucial to the continuation in the Group's implementation of business plans and formulation of business strategies, but also serves to avoid unnecessary speculation, confusion and instability that may be caused to the Group's shareholders, investors, customers, suppliers and business partners worldwide, thereby allowing the Company to have sufficient time for the selection and appointment of the replacement Chairman of the Company. Although the interim arrangement deviates from the relevant code provision, the Board considers that the interim arrangement will not impair the balance of power and authority between the Board and the management of the Company as a majority of the Board members are represented by 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 Corporate Governance Compliance Manual (the "Manual") since 15 April 2010, as amended and supplemented from time to time. The purpose of the Manual is to set out the corporate governance practices from time to time adopted by the Company and the compliance procedures that apply in specific areas, with the aim to providing an overview of the requirements of the CG Code and the related rules set out in the Listing Rules and setting out certain guidelines for the implementation of corporate governance measures of the Company.

As an enhancement of the Company's corporate governance practices and for the purpose of complying with any disclosure requirements applicable to the Company's holding company (direct or indirect) and/or other affiliate, in particular, the Board (with the recommendation from the Company's corporate governance committee) adopted on 5 May 2016 (among other things) the revised procedures for the handling and dissemination of inside information and handling enquiries from the Stock Exchange (which procedures form part of the Manual).

CORPORATE GOVERNANCE REPORT

THE BOARD

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

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

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

The Board currently consists of two executive directors and four independent non-executive directors.

Executive Directors

CHIH Yu Yang (*Acting Chairman effective 1 January 2017, Chief Executive Officer and chairman of the corporate governance committee)*

WANG Chien Ho *(Executive Director effective 7 June 2016 and member of the corporate governance committee effective 1 January 2017)*

Independent Non-executive Directors

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

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

CHEN Fung Ming *(member of the remuneration committee, audit committee and nomination committee respectively effective 29 May 2016)*

TAO Yun Chih *(Independent Non-executive Director effective 9 March 2017)*

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

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

Name of director	Number of Board meetings attended/held in 2016
TONG Wen-hsin (resigned as Chairman and Executive Director on 1 January 2017)	8/8
CHIH Yu Yang	8/8
WANG Chien Ho (appointed as Executive Director on 7 June 2016)	4/4
LEE Kuo Yu (resigned as Non-executive Director on 29 May 2016)	2/4
LAU Siu Ki	8/8
Daniel Joseph MEHAN	8/8
CHEN Fung Ming	8/8
TONG Wen-hsin as proxy for LEE Jer Sheng (LEE Jer Sheng resigned as Executive Director on 7 June 2016)	4/4
LAU Siu Ki as proxy for LEE Kuo Yu	2/4

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

CHAIRMAN

The Chairman is responsible for providing leadership to the Board and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at the Board meetings. He should take the primary responsibility for ensuring that good corporate governance practices and procedures are established and appropriate steps are taken to provide effective shareholders' communication with the Board. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the non-executive directors. On 22 December 2016, the then Chairman namely Mr. TONG Wen-hsin (who resigned on 1 January 2017) and Mr. CHIH Yu Yang (who has become the Company's Acting Chairman with effect from 1 January 2017) held a meeting with the independent non-executive directors without the presence of the other executive directors.

APPOINTMENT, RE-ELECTION AND RETIREMENT OF NON-EXECUTIVE DIRECTORS

The former term of appointment of Dr. Daniel Joseph MEHAN with the Company as an independent non-executive director ended on 23 July 2016, and if he were to continue with his appointment, he would be serving on the Board for more than nine years. According to the code provision contained in paragraph A.4.3 of the CG Code, the proposed re-appointment of Dr. Mehan as an independent non-executive director should be subject to a separate resolution to be approved by the shareholders of the Company. Accordingly, an ordinary resolution was proposed at the 2016 AGM to approve such proposed re-appointment. At the 2016 AGM, an ordinary resolution was passed to approve the re-appointment of Dr. Mehan as an independent non-executive director for a further term of three years from 24 July 2016 to 23 July 2019 (both dates inclusive).

The former term of appointment of Mr. LAU Siu Ki with the Company as an independent non-executive director ended on 30 November 2016, and if he were to continue with his appointment, he would be serving on the Board for more than nine years. According to the code provision contained in paragraph A.4.3 of the CG Code, the proposed re-appointment of Mr. Lau as an independent non-executive director should be subject to a separate resolution to be approved by the shareholders of the Company. Accordingly, an ordinary resolution was proposed at the 2016 AGM to approve such proposed re-appointment. At the 2016 AGM, an ordinary resolution was passed to approve the re-appointment of Mr. Lau as an independent non-executive director for a further term of three years from 1 December 2016 to 30 November 2019 (both dates inclusive).

The Company entered into a letter of appointment with each of the independent non-executive directors for a term of three years commencing from 1 November 2014, 24 July 2016, 1 December 2016 and 9 March 2017 respectively subject to re-election at each annual general meeting of the Company in accordance with article 112 of the Articles. All the directors of the Company are subject to retirement by rotation at least once every three years in accordance with article 112.

DIRECTORS' AND COMPANY SECRETARY'S CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

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

Name of director	Type(s) of continuous professional development activities
TONG Wen-hsin (resigned on 1 January 2017)	A, B
CHIH Yu Yang	A, B
LEE Jer Sheng (resigned on 7 June 2016)	B
WANG Chien Ho (appointed on 7 June 2016)	A, B
LEE Kuo Yu (resigned on 29 May 2016)	B
LAU Siu Ki	A, B
Daniel Joseph MEHAN	A, B
CHEN Fung Ming	A, B

A: Attending briefings and/or training sessions
B: Reading articles, journals, newspapers and/or other materials

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

REMUNERATION COMMITTEE

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

The remuneration committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman)*
Daniel Joseph MEHAN
CHEN Fung Ming (appointed on 29 May 2016 in place of LEE Kuo Yu who resigned on 29 May 2016)

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

The remuneration committee shall meet at least once a year if necessary. During the year, three remuneration committee meetings were held, in particular, to review the renewal of the terms of appointment of three directors, the 2016 share grant proposal under the Existing Share Scheme, the annual expenses allowances to two executive directors, the remuneration of certain proposed directors as well as to make recommendations to the Board on the relevant matters. The attendance of each member of the remuneration committee is shown below:

Name of committee member	Number of remuneration committee meetings attended/held in 2016
LAU Siu Ki	3/3
Daniel Joseph MEHAN	3/3
CHEN Fung Ming (appointed on 29 May 2016)	2/2
LAU Siu Ki as proxy for LEE Kuo Yu (LEE Kuo Yu resigned on 29 May 2016)	2/2

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

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

AUDIT COMMITTEE

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

The audit committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman)*
Daniel Joseph MEHAN
CHEN Fung Ming (appointed on 29 May 2016 in place of LEE Kuo Yu who resigned on 29 May 2016)

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

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

Name of committee member	Number of audit committee meetings attended/held in 2016
LAU Siu Ki	3/3
Daniel Joseph MEHAN	3/3
CHEN Fung Ming (appointed on 29 May 2016)	1/1
LAU Siu Ki as proxy for LEE Kuo Yu (LEE Kuo Yu resigned on 29 May 2016)	2/2

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

NOMINATION COMMITTEE

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

The nomination committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman)*
Daniel Joseph MEHAN
CHEN Fung Ming (appointed on 29 May 2016 in place of LEE Kuo Yu who resigned on 29 May 2016)

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

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

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

Name of committee member	Number of nomination committee meetings attended/held in 2016
LAU Siu Ki	3/3
Daniel Joseph MEHAN	3/3
CHEN Fung Ming (appointed on 29 May 2016)	2/2
LAU Siu Ki as proxy for LEE Kuo Yu (LEE Kuo Yu resigned on 29 May 2016)	2/2

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

CORPORATE GOVERNANCE COMMITTEE

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

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

CHIH Yu Yang *(chairman)*
WANG Chien Ho (appointed on 1 January 2017 immediately upon resignation of TONG Wen-hsin who was appointed on 7 June 2016 in place of LEE Jer Sheng who resigned on 7 June 2016)

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

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

Name of committee member	Number of corporate governance committee meetings attended/held in 2016
CHIH Yu Yang	2/2
TONG Wen-hsin (appointed on 7 June 2016 and resigned on 1 January 2017)	1/1
TONG Wen-hsin as proxy for LEE Jer Sheng (LEE Jer Sheng resigned on 7 June 2016)	1/1

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

INDEPENDENT BOARD COMMITTEE

During the year, pursuant to the resolution passed at the Board meeting held on 11 August 2016, an independent Board committee comprising the independent non-executive directors of the Company was established to consider the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ended 31 December 2016 as well as the Purchase Transaction, the Product Sales Transaction, the Non-real Property Lease Expense Transaction, the Consolidated Services and Sub-contracting Expense Transaction and the Equipment Purchase Transaction together with the related supplemental agreements and the relevant proposed annual caps for the three years ending 31 December 2019 as more particularly described in "Report of the Directors" above. The attendance of each member of the independent Board committee is shown below:

Name of committee member	Number of independent Board committee meeting attended/held in 2016
LAU Siu Ki	1/1
Daniel Joseph MEHAN	1/1
CHEN Fung Ming	1/1

AUDITOR'S REMUNERATION

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

During the year, the auditor's remuneration incurred by the Company was US$898,000, and US$1,155,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services and US$54,000 for non-audit services. The Company considers the non-audit services to be insignificant and has therefore not provided itemised details regarding the nature of each non-audit service and the fee paid therefor.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

ACCOUNTABILITY AND AUDIT

The Board is responsible for the preparation of the Group's consolidated financial statements and the Company's financial statements for each financial period, which give a true and fair view of the financial position and operating results of the Group or the Company (as the case may be) for such financial period. In preparing the financial statements for the year ended 31 December 2016, the directors have selected suitable accounting policies and have applied them in a consistent manner, have made reasonable judgments and estimates, and have prepared the financial statements on a going-concern basis.

The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's business and strategic objectives, ensuring that an appropriate and effective system of internal controls and enterprise risk management is established and maintained within the Group.

In particular, the Board oversees the Group's management (comprising, in the context of the Group's enterprise risk management and internal controls, the Company's chairman, chief executive officer and chief financial officer, and the Group's business head of the Group's major factories and site head of the United States, who collectively as a body is principally responsible for the Group's overall policies on enterprise risk management and internal controls (the "Management")) in the design, implementation and monitoring of the internal control and enterprise risk management system on an ongoing basis, so that the business and strategic objectives of the Group can be achieved and risks associated can be identified, analysed, managed and mitigated (but not eliminated) at an acceptable level, to provide reasonable (but not absolute) assurance against material misstatement or loss and also assurance on the effectiveness and adequacy of operations, reliability of financial reporting, safeguarding of assets and compliance with applicable laws and regulations.

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

The audit committee, in discharging its responsibility of evaluating the effectiveness and adequacy of the Group's system of internal controls and enterprise risk management as delegated by the Board, reviews the Group's internal audit function. Pursuant to a risk-based approach, the Group's internal audit function independently reviews the risks associated with and internal controls of the Group over various operations and activities, and evaluates their adequacy, effectiveness and compliance. The Group's internal audit function has unrestricted access to all information, books, people and physical properties, thereby allowing it to review all aspects of the internal controls, enterprise risk management and governance processes within the Group. This includes audits of financial and operational controls of all legal entities and functional units as well as all other material controls (including financial, operational and compliance controls). The audit committee reviews and approves the internal audit plan which is prepared by the Group's internal audit function every year based on an assessment of the risk in each operating and functional unit as well as its materiality in a Group context. Audit findings and recommendations are communicated to the Management after each internal audit. The Management is responsible for evaluating such audit findings and recommendations and then implementing the appropriate ones and rectifying the deficiencies with corrective actions, and the progress on such implementation and rectification is followed up by the Group's internal audit function on a regularly basis and monitored by the Management. Escalation to the senior management or even the executive directors for material deficiencies will be made, so that corrective actions can be taken in a timely manner. A summary of major audit findings is reported semi-annually to the executive directors and the audit committee. Being a learning organisation, lessons learned and best practices are disseminated and promoted within the Group.

During its annual review, the audit committee also considers, in particular, (a) the adequacy of resources, qualifications and experiences of the accounting and audit staff, and their training programs and budget; (b) the changes, since the last review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment; (c) the scope and quality of the Management's ongoing monitoring of risks and of the internal control and enterprise risk management system, and the work of the Group's internal audit function; (d) the extent and frequency of communication of monitoring results to the audit committee which enables it to assess control of the Group and the effectiveness of risk management; (e) significant control failings or weaknesses that have been identified during the period under review and also the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and (f) the effectiveness of the Group's processes for financial reporting and compliance with the Listing Rules.

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

Risk management is a central part of the Group's strategic management, and is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives. Existing and emerging risks are identified, analysed and managed via the enterprise risk management system. The system is operated and monitored by the Group's enterprise risk management team (the "ERM Team") which consists of the Company's heads of human resources, supply chain services, manufacturing and corporate engineering and product liability as well as leaders from quality and reliability, finance, legal, information technology, environment and health and safety departments, collectively as a body representing key functions of the Group for monitoring and execution of the enterprise risk management process. Risk assessment reports will be reported to the ERM Team on a regular basis which then reviews the risk assessment reports to ensure the adequacy of action plans and appropriate business process or control systems to manage these risks. The ERM Team will consolidate the assessment results in a Group-level risk assessment report and then report to the Company's chief financial officer, who will represent the Management and report the operational adequacy and continuing effectiveness of the internal control and enterprise risk management system to the audit committee.

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

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

The Company's chief financial officer (in his own capacity and on behalf of the Management), after reviewing and discussing with the Group's internal audit function the Group's internal control and enterprise risk management system as well as the related reports and disclosures made by the Group's internal audit function for the year ended 31 December 2016, has provided a confirmation to the audit committee on the effectiveness of the system.

Based on the results of evaluations and representations for the year ended 31 December 2016 made by the Company's chief financial officer (in his own capacity and on behalf of the Management) and the Group's internal audit function respectively, the audit committee is satisfied with the effectiveness of the Group's internal audit function and that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives, and an effective and adequate system of internal controls and enterprise risk management has been in place throughout the year ended 31 December 2016 to safeguard the interests of shareholders, customers, creditors and employees.

The procedures for the handling and dissemination of inside information and handling enquiries from the Stock Exchange (forming part of the Manual) set out the detailed internal control, reporting and authorisation procedures in connection with:

(a) the handling and dissemination of inside information in compliance with rule 13.09 of the Listing Rules and Part XIVA of the SFO, where recipients of potential inside information (subject to applicable confidentiality obligations and dealing restrictions) will notify the leader of a core team designated by the Board for assessment and (as appropriate) reporting to the chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practically feasible) escalation to the Board to finally assess any disclosure need in compliance with rule 13.09 of the Listing Rules and Part XIVA of the SFO in respect of the potential inside information.

(b) the handling of enquiries from the Stock Exchange, who may make enquiries with the Company (primarily its company secretary being a member of the designated core team) on unusual movements in the price or trading volume of the Company's shares under rule 13.10 of the Listing Rules or media news, and such enquiries will be handled through such core team and (as appropriate) the chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess proper disclosure.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the year ended 31 December 2016.

SHAREHOLDER RELATIONS

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

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

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

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

- For enquiries about their shareholdings in the Company, the shareholders can direct the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or by email to hkinfo@computershare.com.hk, who has been appointed by the Company to handle the shareholders' share registration and related matters.

- For the verification of his/her capacity as a shareholder, the shareholder making the enquiry, request, comment or suggestion shall forthwith upon the Company's request provide: (a) his/her name, address and other contact details; (b) the number of the Company's shares held by him/her; (c) his/her written consent to the use, transfer and/or processing of his/her personal data and other information provided to the Company for the purpose of verifying his/her capacity as a shareholder; and (d) such additional information as the Company may reasonably require for the purposes of such verification. The verification process will be conducted by the Company, in consultation with the Company's Hong Kong branch share registrar and other third parties if necessary, to the satisfaction of the Company. The Company will proceed to handle the relevant enquiry, request, comment or suggestion following a successful verification to its satisfaction.

- Following a successful verification of the shareholder's capacity, the company secretary or the handling officer of the Company's investor relations department (as the case may be) will review the relevant enquiry, request, comment or suggestion and (as appropriate) forward the same: (a) to the Board (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within the Board's purview; (b) to the members of the relevant Board committee (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within such Board committee's area of responsibility; and (c) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

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

During the year, the 2016 AGM and an extraordinary general meeting of the Company (the "2016 EGM") were held on 25 May 2016 and 21 September 2016 respectively. The attendance of each director is shown below *(Note)*:

Name of director	Number of general meetings attended/held in 2016
TONG Wen-hsin (resigned on 1 January 2017)	2/2
CHIH Yu Yang	2/2
WANG Chien Ho (appointed on 7 June 2016)	1/1
LEE Kuo Yu (resigned on 29 May 2016)	1/1
LAU Siu Ki	2/2
Daniel Joseph MEHAN	2/2
CHEN Fung Ming	2/2
TONG Wen-hsin as proxy for LEE Jer Sheng (LEE Jer Sheng resigned on 7 June 2016)	1/1

Note: The directors participated in the 2016 AGM and the 2016 EGM by means of telephone conference facility, except that (a) Dr. LEE Jer Sheng was unable to attend the 2016 AGM due to an urgent commitment and tight travel schedule, and he appointed Mr. TONG Wen-hsin as his proxy to attend the 2016 AGM; (b) Mr. LAU Siu Ki attended the 2016 AGM in person; and (c) Messrs. TONG Wen-hsin and LAU Siu Ki attended the 2016 EGM in person.

At the 2016 AGM, the Company obtained its shareholders' approval of the agenda items set forth in the 2016 AGM notice attached to the Company's circular dated 15 April 2016.

SHAREHOLDERS' RIGHTS

Shareholders' Right to convene Extraordinary General Meeting

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

- Pursuant to article 68 of the Articles, the relevant shareholder(s) of the Company is/are entitled to convene an EGM in the following manner:

  (a) Upon the written requisition of any two or more shareholders deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company; or

  (b) Upon the written requisition of any one shareholder who is a recognised clearing house (as defined in the Articles) or its nominee(s) deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

- If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the requisitionist(s) himself/themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM in the same manner, as nearly as possible, as that in which EGMs may be convened by the Board, provided that any EGM so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for Shareholders' Enquiries

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

Shareholders' Right to put forward Proposals at General Meetings

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

- In the absence of any general mechanism for the shareholders to put forward other proposals at the Company's general meetings under the Cayman Islands Companies Law, the shareholder(s) can submit a written requisition to move a proper resolution at a general meeting of the Company if such shareholder(s): (a) individually or collectively represent(s) not less than one-fortieth of the total voting rights of all the shareholders having as at the date of the requisition a right to vote at the Company's general meetings; or (b) are no less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000 (or its foreign equivalent).

- The written requisition shall (a) state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the relevant general meeting; (b) contain the signature(s) of all the requisitionist(s), which may be contained in one document or in several documents in like form; (c) be deposited with the company secretary at the following address not less than 6 weeks before the relevant general meeting (in the case of a requisition requiring notice of a resolution) or not less than 1 week before such general meeting (in the case of any other requisition); and (d) be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionist(s) to all the shareholders in accordance with the requirements under applicable laws and regulations:

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