FIH® 富智康™
FIH Mobile Limited
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2038
Annual Report
2018

CONTENTS

Corporate Information	2
Chairman's Statement	3
Profile of Directors and Senior Management	5
Report of the Directors	9
Independent Auditor's Report	58
Consolidated Statement of Profit or Loss and Other Comprehensive Income	64
Consolidated Statement of Financial Position	65
Consolidated Statement of Changes in Equity	67
Consolidated Statement of Cash Flows	68
Notes to the Consolidated Financial Statements	70
Financial Summary	149
Corporate Governance Report	150

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
KUO Wen-Yi

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih

COMPANY SECRETARY

WONG Kin Yan, Vanessa

REGISTERED OFFICE

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

HEAD OFFICE

No. 369 Jianshe South Road
Anci District
Langfang City
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

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

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

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of Beijing
Bank of China
Bank of Communications
China Guangfa Bank
China Merchants Bank
Chinatrust Commercial Bank
Citibank
DBS Bank
Deutsche Bank
Industrial Bank
ING Bank
Mizuho Corporate Bank
OCBC Bank
Santander Bank
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
Taipei Fubon Bank
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House — 3rd Floor
24 Shedden Road, P. O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

2038

CHAIRMAN'S STATEMENT

Dear Shareholders,

2018 was a challenging year for the Group and the handset market saturation and global market uncertainties affected business of our customers. The Group recorded a continuous year-on-year growth in sales but significant net loss as a result of gross margin erosion, foreign exchange loss, increasing in selling and R&D (Research and Development) expenses mainly related to the IIDM (Integration, Innovation, Design, Manufacture) business, and the investment and goodwill impairment losses. Under such circumstance, in order to maintain healthy financial position of the Group and reduce the loss making, the Group has critically reviewed its business strategy and will not accept orders with poor margin and at the same time, carried out rightsizing and cost reduction exercises to reduce overall operating expenses and losses. The Group's partner, HMD (which has been in the dynamic handset market) came to a strategic decision that HMD will not only seek for the Group's support but also contract with other ODMs (Original Design Manufacturers) and therefore the Group's sales to HMD will decline. As there was change to collaboration model between the Group and HMD, the Group decided to discontinue its logistics and distribution business and cut the costs and concentrated the Group's resources on its core business. Regarding equity investments, the Group has become cautious on managing its investment portfolio, and its investment strategies become more focused on the phone related hardware, software for building up the phone ecosystem portfolio including 5G (5th Generation of Cellular Mobile Communication), AI (Artificial Intelligence), IoT (Internet of Things) smart devices, smart home products or others. The Company currently expects no substantial loss arising from the change in the total fair value of the Group's investments in certain listed companies and goodwill impairment loss in 2019.

Chinese market, the world's largest smart phone market, remains the Group's core performance contributor in 2018. However, Chinese market has been in decline since 2017, and there has been a noticeable slowdown both in price and volume in the third quarter of 2018. On the other hand, the trade war between China and U.S. has imposed tariffs on billions of dollars and impacted on traditional OEM (Original Equipment Manufacturing) and manufacturing industry, but fortunately the trade war has not yet directly affected mobile phones as no tariffs being imposed. Due to the Group's global footprint, the Group is not only working with our Chinese customers in China, but also providing the supply chain management competitiveness enabling their internationalisation and expanding their reach outside China to offset the decline in Chinese market. Therefore, the Group expects the manufacturing business in India and Vietnam will continue to see healthy growth in 2019. In relation to the Group's continuous fostering and development of long-term relationships and partnerships with customers, in 2018, the Group entered into collaboration with a U.S. based internet customer who is one of the most innovative internet companies in the world to bring the most advanced AI technology embedded smart phones to customers and consumers worldwide.

From mobile market perspective, phones are more capable and durable, which will extend the replacement cycle and consumers are not compelled to upgrade quickly, and the phone industry also showed a matured growth pattern in 2018. While the innovation and enhanced user experience are still paramount, there are many innovative products that are expected to be launched in the market in 2019. The Group would adopt innovative technology to differentiate ourselves from competitors for further growth with our customers. Our end-to-end handset manufacturing services solutions 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.

CHAIRMAN'S STATEMENT

Revenue for the year 2018 was US$14,930 million, which represents an increase of US$2,850 million or 23.59%, when compared with 2017 revenue of US$12,080 million. Loss for the year 2018 attributable to owners of the Company was US$857 million, when compared with the corresponding 2017 loss of US$525 million. Basic loss per share for the year 2018 was US10.57 cents.

Technologies keep evolving dramatically and the Group has to adapt to the "Internet + Industry" evolution and we will grasp the industry opportunities and make more investment in 5G and other key areas and look ahead to design products that better meet people's increasingly demanding needs. Since the Group adjusted its pricing strategy and initiated cost optimisation exercise to remain competitive and took necessary actions for its investment portfolio in 2018, we believe the bottom line performance in 2019 would improve as operating expenses should reduce, and pressure on the Group's gross margins generally ought to ease, over the course of 2019.

Thanks to our teamwork and determination in 2018, the Group's entire staff has worked diligently and strived hard to meet the challenges and to adopt necessary changes for our future developments and long-term success. For this, I would like to extend my gratitude to the support of our board of directors, management team, all staff, customers, shareholders and business partners in the past year. We aim to continue to execute well and strive to make continuous improvements in the years to come.

With best regards,

CHIH Yu Yang
Acting Chairman

6 March 2019

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

CHIH Yu Yang (Mr.), Chinese (Taiwan) and aged 60, 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 the chairman of the board of directors 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. Mr. Chih is the chairman of the board of directors of FIH Co., Ltd. and Evenwell Digitech Inc., both being subsidiaries of the Company. He is also a director of certain other subsidiaries of the Company, namely Executar International Limited, FIH Technology Korea Ltd., Greater Success Investments Limited and Transworld Holdings Limited respectively. Moreover, he is a director of certain subsidiaries 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"). He has 39 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 59, joined the Company as an executive director on 7 June 2016. Mr. Wang joined the Company as director of electronic parts manufacturing and SMT (Surface Mount Technology) and system assembly in June 2004. Before joining the Company, Mr. Wang joined the Hon Hai Group (comprising Hon Hai and 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 (Printed Circuit Board Assembly) 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 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only), a subsidiary of the Company. He ceased to serve as a director of ShunSin Technology Holdings Limited, whose shares are listed on the Taiwan Stock Exchange Corporation, with effect from July 2018. He has over 32 years of extensive experience in manufacturing operation and engineering management. Mr. Wang obtained a Bachelor degree in Electronics Engineering from Feng Chia University, Taiwan in 1982.

Dr. KUO Wen-Yi (Mr.), Chinese American, aged 53, was appointed as an executive director of the Company on 29 June 2018. He is also a member of the corporate governance committee of the Company. Dr. Kuo joined the Group in December 2014 and is currently the vice president of the Group. He is also a director of ICI Cayman Limited and a supervisor of 深圳市富宏訊科技有限公司 (Shenzhen Fu Hong Xun Technology Co., Ltd. for identification purposes only) respectively, both being subsidiaries of the Company. Dr. Kuo has more than 24 years of extensive experiences in wireless communication product research and development, international business development, startup business and corporate management. Before joining the Company in December 2014, Dr. Kuo was the founder and the chief executive officer of BandRich Inc. ("BandRich") from March 2006 to December 2014. The core businesses of BandRich were product development and sales of 3.5G (also known as High Speed Downlink Packet Access (HSDPA)) and 4G LTE (the Fourth Generation of Mobile Phone Mobile Communication Technology Standards Long-Term Evolution) wireless routers and communication modules for home, vehicle and outdoor applications. BandRich partnered with the world's dominant wireless infrastructure suppliers Ericsson and Alcatel-Lucent and sold products to worldwide operators. From April 2003

to February 2006, Dr. Kuo was the senior director (department head) of Compal Electronics Inc. (a listed company in Taiwan) and was in charge of the business in 3G (the Third Generation of Wireless Mobile Telecommunications Technology) mobile phone. From May 2000 to July 2002, Dr. Kuo was the co-founder and the chief technology officer of Wiscom Technologies ("Wiscom") in New Jersey, U.S. Wiscom was focusing on development of 3G mobile phone baseband chip. Wiscom's intellectual property rights were later acquired by Intel Corporation. From April 1999 to May 2000, Dr. Kuo was the principal technical staff member of AT&T Labs, engaged in 3G WCDMA (Wideband Code Division Multiple Access) system researches. From January 1995 to April 1999, Dr. Kuo worked in Bell Laboratories of Lucent Technologies on CDMA (Code Division Multiple Access) and WCDMA research and development on network infrastructures. Dr. Kuo is the inventor of 38 U.S. wireless communications patents. He received the IEEE (Institute of Electrical and Electronics Engineers) Leonard G. Abraham Prize in 2001. He was an adjunct professor at New Jersey Institute of Technology in 1998. Dr. Kuo received a Bachelor Degree of Science in Communications Engineering from National Chiao Tung University, Taiwan in 1987, a Master Degree of Science in Electrical Engineering from National Taiwan University in 1989, and a Doctoral Degree of Philosophy in Electrical Engineering from Purdue University, U.S. in 1994.

LAU Siu Ki (Mr.), Chinese (Hong Kong) and aged 60, 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 governance, 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 fellow 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, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Samson Holding Ltd. and TCL Electronics Holdings Limited (formerly known as TCL Multimedia Technology Holdings Limited), whose shares are listed on The Stock Exchange of Hong Kong Limited (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). In addition, he also served as an independent supervisor of Beijing Capital International Airport Co., Ltd., whose shares are listed on the Stock Exchange, from 30 June 2014 to 28 June 2017. Mr. Lau was an independent non-executive director of UKF (Holdings) Limited from 16 March 2015 to 15 March 2016 and was an independent non-executive director of China Medical & HealthCare Group Limited from 3 June 2004 to 6 December 2018, the shares of which companies are listed on the Stock Exchange. From 23 April 2004 to 24 October 2016, he was an independent non-executive director of TCL Communication Technology Holdings Limited, whose shares were delisted on the Stock Exchange, effective from 30 September 2016.

Dr. Daniel Joseph MEHAN (Mr.), American and aged 74, 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, U.S.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

TAO Yun Chih (Mr.), Chinese (Taiwan) and aged 44, joined the Company as an independent non-executive director on 9 March 2017. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. Mr. Tao is the partner of DMC & Partners Consulting Co., which focus on providing digital transformation consulting services to traditional business owners since 1 December 2017. He was the chairman of We Interactive (TW) Ltd., which is a start-up focusing on providing outsourcing services, and was also the vice president of Next Entertainment (HK) Ltd., which is a start-up focusing on live streaming opportunity. Before these, 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 16 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.

SENIOR MANAGEMENT

Dr. CHANG Pe Ter, Peter (Mr.), Chinese (Taiwan) and aged 59, joined the Company as senior manager of mechanical parts production in December 2008. Dr. Chang, current position as senior director, manages mechanical parts business. 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 28 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), Transworld Communication Systems Inc. and FIH (Tian Jin) Precision Industry Co., Ltd. respectively. He is also a director of Ways Transworld Inc. (a joint venture of the Company). Dr. Chang was also a director of Ways Technical Corp., Ltd. from 28 June 2016 to 8 January 2019, 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, U.S. in 1992.

HSIUNG Nai-Pin, Paul (Mr.), Chinese (Taiwan with U.S. nationality) and aged 54, joined the Company as director of business development in January 2003. He is responsible for operations in America region including production, logistics and after-market service 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, U.S. From 2009 to 2012, he was responsible for mobile phone design and development in Florida U.S., and also product manufacturing at Langfang, China. Before joining the Company, Mr. Hsiung was a director at Test Research, Inc. (a Taiwan listed company) for 8 years and responsible for international sales and marketing. 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, U.S.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

TAM Kam Wah, Danny (Mr.), Chinese (Hong Kong with British nationality) and aged 55, 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 31 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 in 2005.

CHEN Hui Chung, John (Mr.), Chinese (Taiwan) and aged 57, 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 29 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, U.S. in 1987.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") hereby announces the annual report incorporating this report of the directors, particularly the audited consolidated results of the Group for the year ended 31 December 2018 (the "current period").

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 145 and 146. The Group is principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. It provides a wide range of manufacturing services to its customers in connection with the production of handsets (the Group's ancillary logistics and distribution services provided to its customers in connection with the distribution of handsets have ceased with effect from 1 January 2019).

RESULTS

The results of the Group for the current period are set out in the consolidated financial statements on page 64.

BUSINESS REVIEW

Important

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

In the "Outlook" section below, it is mentioned that on the basis of a preliminary review of currently available information, the Company expects that the Group's operating loss in the first half of 2019 will be reduced when compared year-on-year. The Group recorded a consolidated net loss of US$348,567,000 for the six-month period ended 30 June 2018.

This report of the directors contains forward-looking statements regarding the Company's expectations and outlook on 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, changes in general industry and macro-economic environment (such as intensifying trade wars and political conditions), changes in monetary market (such as interest rate hikes and volatility in foreign exchange rates), changes in capital market, competition, shifts in customer demands and preferences, seasonal demands, changes in sales and product mix, changes in commodity price, shortage of components, technology advancement, and changes in market/legal/regulatory/government/tax policy. In addition, new risks emerge from time to time and it is not possible for the management to predict all such risk factors or to assess the impact of such risk factors on the Group's business. 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 (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

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

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd., for identification purposes only) ("Hon Hai", together with its subsidiaries and associates, the "Hon Hai Group"). Hon Hai is a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation, and a leader in the handset industry worldwide as a vertically integrated manufacturing service provider offering a comprehensive range of end-to-end components and manufacturing and engineering services to its customers in respect of handsets and other wireless communication devices and consumer electronic products, including unique and innovative product development and design, casings (the casings may be sold to customers or used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly etc., logistics and distribution and supply chain services and solution, and repair and other after-sales services which are located close to the customers. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as e-Readers, tablets and voice interaction products.

The Group strives to provide its customers with not only manufacturing support, but also a full range of cost-competitive services including repair, service on a global basis, and the Company believes that this strategy differentiates the Group from its competitors and will help to support its customers' products during their entire life cycles and reduce the time required to bring the products to market.

Our customer, HMD global Oy ("HMD"), is headquartered in Espoo, Finland and is the home of Nokia-branded phones and the manufacturers of Nokia-branded smart phones and feature phones targeting a range of consumers and price points, and sales to HMD are grouped under our Europe segment. By working with best in-class industry partners, HMD has assembled an ecosystem of strong partnerships in imaging, software and manufacturing. With a commitment to innovation and quality, HMD is the exclusive licensee of the Nokia brand for phones and tablets. HMD is principally responsible for brand and intellectual property (IP) right management, product development, marketing strategy and distribution for the Nokia-branded phones. For details, please see the section headed "Investments" below.

Discussion and Analysis

Key Relationships with Customers, Suppliers and Employees

The Group's major customers include top international brands and Chinese brands. Therefore the Group has established operations, Research and Development ("R&D") centres and manufacturing and phone repair and refurbishment facilities located close to its customers across the Asia-Pacific region (e.g. China, India, Vietnam, Taiwan) and the Americas including Mexico to better facilitate their respective local needs and enable such customers to accelerate the launch of their products to market.

In relation to the Group's continuous fostering and development of long-term relationships and partnerships with customers, during the current period, the Group entered into collaboration with a U.S.-based internet customer who is one of the most innovative internet companies in the world to bring the most advanced AI technology-embedded smart phones to customers and consumers worldwide. As its sales grow, it has now become one of the Group's top five customers.

As a whole, the Group's strategy is to work with the customers from the initial concept design stage up until the end of the production process managing all aspects of sourcing, development, assembly and services of phone and provide a complete range of cost-competitive and vertically-integrated global supply chain solutions for our customers and consumers. This enables our customers to leverage on our supply chain solutions to meet their product requirements throughout the life cycle of their products.

Amongst the Group's five largest customers (including HMD) during the current period which accounted for approximately 86.8% of the Group's total revenue during such period, three of them have long-term and well-established relationships with the Group for more than five years, the other one have been its customers for more than two years. For the remaining major customer, it has been the Group's customer for a year. These top five largest customers are largely the same as those for 2017 but there has been a change as the U.S.-based internet company emerged. These major customers are not required to commit to certain minimum purchase value or volume from us over a period of time. In the dynamic handset industry, where innovation and enhanced user experience are paramount and loss of or changes in market position of any of these customers or their products or outsourcing strategies of these customers may materially and adversely affect the Group's business, financial condition and results of operation, especially in view of the concentration of our sales to these customers. Our reliance on major customers means that our performance is directly affected by the performance of these customers in the challenging handset industry. Given that the industry is dominated by a few significant players, it would be difficult for the Group to develop new customers that have similar business scale as our existing major customers. Further, it takes time for us to gear up our production facilities to produce products and provide services that are customised to new customers. Depending on the specification of products, it would take us from 2 months to 10 months to customise our production facilities if we switch to or add a new customer. In light of the handset market saturation, the Group focuses on technological innovation to enhance user experience and values the mutually beneficial relationships with its customers by providing them with high quality products and services of global standards at competitive prices, manufacturing industry-leading and state-of-the-art products for its customers, offering customised services and flexibility to clients, and creating customer delight among passionate people engaged in a world-class manufacturing environment, and continues to prolong, develop and foster closer relationships and partnerships with them for mutual benefit of the Group and such customers in the long run and secure optimal utilisation of manufacturing equipment and facilities of the Group so as to reduce costs. Like many industries in today's globalised world, the handset market experiences continuous consolidation where an increasingly small number of leading players tend to capture a relatively significant market share. As an OEM/ODM/IDM (Original Equipment Manufacturer/Original Design Manufacturer/Innovative Design Manufacturer) and manufacturing solution-provider in the handset industry, the Group has proactively managed its growth and concentration risk in a balanced manner.

One of such five largest customers until October 2018 was Sharp Corporation, which is a connected person of the Company pursuant to the Listing Rules as it is a close associate of Hon Hai, the ultimate controlling shareholder of the Company. The revenue derived from the sales of goods and rendering of services by the Group to Sharp Corporation accounted for approximately 6.44% of the Group's total revenue from the sales of goods and rendering of services for the current period.

The Group believes that the efforts and results in the previous years on customer diversification are testimony of its ability to achieve this balance in the rapidly changing industry landscape to date. Year-on-year change in sales is one of the financial key performance indicators (KPIs) as this will reflect the effectiveness of the efforts invested by the Group on the above and ability to achieve economies of scale and scalability in the competitive handset market and increase the bargaining power of component and material sourcing and procurement for ODM, IDM and IIDM (Integration, Innovation, Design, Manufacture) businesses.

The credit period granted to the Group's major customers ranges from 30 to 90 days, which is in line with those granted to other customers. The allowance for credit loss made for the current period was US$0.95 million (when compared to the allowance for doubtful debt of US$0.12 million for the same period in 2018), which allowance was made for specific exceptional circumstances and based on the expected credit allowance assessment. Subsequent settlements of trade receivables from these major customers have been reviewed and are satisfactorily resulting in no material provision for the current period.

The Group's procurement team deals with over 3,000 suppliers that supply components and other materials necessary for the Group's businesses and most of them are reputable and qualified approved suppliers with long-term and stable relationships with the Group, in order to secure adequate supply of key parts, maintain stronger bargaining power, and source good quality materials with competitive prices in a time-efficient manner without the need of relying on some major suppliers. Bill of material (BOM) cost control is of critical importance.

The Group's suppliers include suppliers of raw materials, electronic components and parts, display module, camera module, battery, enclosure and packaging materials, and such suppliers are generally selected by the Group based on the quality and reliability of products, technical competence and engineering capability, on-time delivery, service quality, price competitiveness, commercial terms for supply transactions and specifications from its customers and industry reputation. Purchases from the Group's five largest suppliers accounted for approximately 65.66% of the Group's total purchases for the current period. Amongst these five largest suppliers, four of them have long-term and well-established relationships with the Group for more than five years, and the remaining one has been our supplier for a year. As our contracts with these major suppliers do not require them to reserve their production capacity to produce supplies to us or to guarantee minimum supplies to us, we could be exposed to the risk of unstable supplies. Notwithstanding the apparent concentration of procurements from these major suppliers, we are not exposed to any material risk of disrupted supplies from our suppliers as our procurement needs are well planned with sufficient buffer to address any possible material delay and there are a vast number of alternative suppliers in the market for the Group to choose from. We believe that we will not be subject to material costs or delay if we were to switch suppliers in case such needs arise. Notwithstanding that there are a great number of suppliers in the market that the Group could potentially choose from, we have over the years concentrated our procurement from major suppliers because of the ease of procurement process and the commercially sound terms offered by these suppliers. One of such five largest suppliers is the Hon Hai Group. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. The purchases attributable to the Hon Hai Group accounted for approximately 7.35% of the Group's total purchases for the current period. For details, please refer to the "The Group's Value Chain" section of the Company's separate 2018 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

In response to the potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has diversified its customer and supplier base and 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 Company's 2018 corporate governance report, which forms part of the annual report incorporating this report of the directors.

Employees are valuable assets to the Group. Therefore, the Group has been working diligently to attract and retain 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 opportunities, 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 various products and business lines. The Group places great emphasis on career planning and talent development for employees by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency development to enhance employees' capabilities, while external training programs include seminars or conferences organised by external parties that provide excellent training opportunities for employees. The Group prides itself on providing a safe, effective and congenial working environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been implemented to ensure a healthy and safe working environment. The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, development, rewards and retention. The Group has built up an experienced R&D team in China and Taiwan to support its significant opportunities for business growth (such as new technology and materials and new customers) by investing in R&D on top of its strong manufacturing and engineering capabilities to implement and execute the corresponding R&D requirements of our customers. 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 experiences on procurement, value and design engineering and product development, quality management, production management, repair services, logistics and distribution competence. As at 31 December 2018, the Group had a total of 97,484 (31 December 2017: 92,779) employees. Total staff costs incurred during the current period amounted to around US$541 million (31 December 2017: around US$570 million), and the year-on-year decrease was mainly due to compensation of individual decreased. Please refer to the "Investments" and "Outlook" sections below for details. The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. The Company has adopted both a share scheme and a share option scheme, and 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, the prevailing market practices as well as the recommendations of the Company's remuneration committee. For details, please refer to the "Human Capital — The Group's Greatest Asset" section of the Company's separate 2018 environmental, social and governance report as issued and published simultaneously upon issuance and publication of the annual report incorporating this report of the directors.

Review of Results and Operations

Financial Performance

The financial KPIs include the above-mentioned year-on-year changes in sales, gross margins, net margin and return on equity. For peer analysis, as peers may have different business strategies, business models, client mix, revenue and product mix (casing versus system assembly and other non-handset businesses), business segments, pricing policy, geographical footprint, cost structure, it may be difficult to make direct comparisons at consolidated group account level as some peers may have business segments other than casing and system assembly business.

For the twelve-month period ended 31 December 2018, the Group recognised a consolidated revenue of US$14,930 million, representing an increase of US$2,850 million or 23.59% when compared to US$12,080 million for the same period last year. Net loss for the current period was US$857 million, when compared to a net loss of US$525 million for the same period last year. The Group's net loss is primarily attributable to various factors, including the following: (1) the challenging conditions faced by the Group in the second half of 2017 persisted in 2018; (2) pressure on the Group's gross margins continued; (3) increase in the expenses relating to the continuous growth of the Group's IIDM business (including ancillary logistics and distribution services); (4) increase in the Group's foreign exchange loss; (5) a substantial impairment losses relating to the Group's goodwill and interests in associates; (6) fair value loss on convertible notes and (7) a substantial loss arising from the change in fair value of the Group's investments in certain listed companies.

Gross profit and gross margins of a manufacturing business are common financial KPIs measuring how much a company is generating from revenues (after deducting cost of sales) to cover operating expenses. A higher percentage of gross profit means a stronger ability to control cost of sales, which includes control of variable costs such as BOM cost, direct labour costs, variable manufacturing costs, overheads and yields, and efficiency which can improve the contribution margin to cover fixed overheads. The more profitable the business is, the more profit is available to cover operating expenses and ultimately to pass on to the shareholders. As explained in further detail below, these are key indicators of the Group's business as our performance has been impacted to a large extent by the challenges presented for our gross profit and gross margins. Gross loss for the current period was US$84 million (2017: gross profit of US$130 million), mainly as a result of the decrease in gross margins. Gross margins for the current period 2018 was a loss of 0.56% and was less than the gain of 1.08% for the same period last year. Gross margins of Nokia-branded phone manufacturing business starting from 2017 was subject to extremely huge pressure since the beginning of mass production of Nokia-branded smart phones in June 2017. HMD, the Group's strategic customer, needed to promote, develop and prove itself in the competitive smart phone market by introducing attractive portfolio which could challenge the established competitors product line up. In order to penetrate the market and capture market share, the pricing of the first and second generation products were required to have competitive hardware and specifications to challenge competitors' products in similar price point. This increased the pressure on the material cost and resulted that cost of goods sold of smart phones went above selling prices due to low volumes and limited bargaining power in the component market. The Group was in a weak bargaining position of component and material sourcing in the beginning of the IIDM business. With the Group's continuous improvement in the product design, material procurement, manufacturing and cost management on the indirect labours of the IIDM business, HMD introduced its third generation smart phones in the third quarter of 2018, which offered competitive price-performance ratio as its competitors and improved time to market.

The majority of the poor performance of this part of business was reflected in the loss-making Europe segment (as disclosed in note 5 to the Consolidated Financial Statements on page 100 in the annual report incorporating this report of the directors) as HMD is a European company.

In 2018, after operating for two years (since the acquisition of assets from Microsoft Mobile Oy ("Microsoft") in November 2016), the challenging conditions faced by the Group started in the second half of 2017 and continued into 2018. During that period, BOM costs of smart phones remained higher than the selling prices. The volume of manufacturing of Nokia-branded smart phone business is directly related to success of its customer, HMD. However, the volume was below the levels that would drive economies of scale so that the Group's sourcing could carry out supplier consolidation and allocate procurement to only a limited number of qualified suppliers to enable the Group to have a stronger bargaining power and buy at bulk and at more competitive prices. It is anticipated that it may take time to reach needed scale of products as HMD is operating in a handset market which is highly competed and market growth has slowed down and few markets have even contracted year over year. For the Nokia-branded phone business, the Group now has to do the commodity and program sourcing work itself. To relieve its pricing and gross margin erosion pressure, BOM control is of critical importance. Key components in handset BOM cost include platform chipset, memory, display, camera module, enclosure/housing and battery which account for the top six items of cost in the dollar value. Due to the continuous year-on-year market decline in the Chinese consumer market, the material market situation has changed dramatically. In the last quarter of 2018, memory and most of the critical ratio-frequency (RF) component supply situation has been improved significantly. However, as the handset market competition remains fierce, the cost of components for chipset, camera and display declined due to the weak demand in the market, the gain was diminished by the increase in product specification and innovation such as the introduction of new chipset, dual camera solution being moved to mid-end models and further increase in the screen size, in order to attract end consumers. Furthermore, though the price of battery raw materials has been flat or has dropped slowly in the second half of year, the Group faced a negative impact on the cost of battery due to the currency fluctuation in Renminbi ("RMB"). The cost increases in the key components has affected profit margins because the rise in BOM cost cannot be automatically transferred into customers without negative impact on the demand. Smart phone business continues being price-sensitive and retail selling prices of phones sold by TNS Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands ("TNS"), are required to be competitive in order to continue taking share in the market and increase the phone shipment volume to achieve a better bargaining power for the sourcing function of the Group. Unfavourable factors including pressure in BOM costs, manufacturing costs and quality assurance costs of smart phones have affected the costs of smart phones manufactured by the Group which are sold to HMD and gross margins pressure were impacted significantly. Internally, the Group will continue to devote adequate resources to program sourcing and commodity sourcing and find more new competent suppliers and maintain executive-level vendor relationships to obtain the best technology, supply and price support and gradually obtain improved position with suppliers. Other initiatives on BOM cost reduction include the design of key parts based on best cost performance, collaboration with vendors and the continuous narrowing of the gap (2–3%) with industry cost leaders. The engineering team is taking learnings from 2017 and drives product innovation, optimises product design (including BOM design) and to create competitive products. On top of this, there is a need to drive for better internal operational efficiency of assembly, testing processes, inventory and supply chain management, quality management, improve yields to lower manufacturing costs, conduct the benchmarking of cost leaders' processes and costs of external EMS (electronic manufacturing services) to improve the competitiveness of the Group's manufacturing costs, yield and efficiency. On the other hand, as phones are distributed worldwide, there is need for handling order fulfilment in many different countries and this will inevitably have a high impact on our conventional flow line manufacturing process and results in higher operational cost. As a whole, good vendor management, supply chain management, manufacturing management, quality management, order fulfilment and inventory management are critical to ensure cost efficient operations. All the challenges and factors listed above posed huge pressure on gross margins and the majority of the poor performance was reflected in the loss-making Europe segment (please refer to note 5 to the consolidated financial statements).

For TNS, in the second operation year, although TNS has streamlined its operational structure to reduce general and administration ("G&A") expenses, the selling expenses have increased because more investments were needed to fuel the channel, especially in declining or slow growth smart phone markets.

Despite all the actions and efforts that have been taken by the Group's IIDM business in the past two years, the overall performance is poor. As competition remains fierce and given the difficulties ahead in 2019, the Group has critically reviewed its business strategy and will not accept orders with poor margin and at the same time. The Group's partner, HMD (which has been in the dynamic handset market) came to a strategic decision to deploy a multi-ODM partnership strategy and HMD will not only seek for the Group's support but also contracts ODMS. In doing so, the sales income from HMD would be expected to be less yet the Group can refocus on the projects with optimised profit margins. Coupled with the refocusing, the Group implemented cost down exercises to lower its overhead and operating expenses to maintain a healthy cash flow to keep its ability to sustain in the highly competitive mobile phone market. Accordingly, TNS has decided to discontinue its distribution business and cut the headcounts and consequently terminated the customer and distributor agreements of distribution business at the end of 2018.

Apart from the IIDM business, the Group's casing and system assembly business also faced a lot of challenges in 2018. There was surplus capacity for the casing industry sector as there had been excessive investments in mechanical capacities (such as CNC (Computer Numerical Control) Machines) in previous years by peers and competition of system assembly business was also keen and the price and margin erosion pressure for both casing (and mechanical) and system assembly businesses were extremely high. At the same time, there had been a change in our sales and product mix and there had been some decline in our casing business (partly due to the change in product mix from high-end and mid-range products to low-end ones) whilst the large year-on-year increase in the sales in 2018 was attributable to the increase in system assembly business of comparatively low gross margins. For our peers of casing business, they are companies listed in the Mainland, Hong Kong or Taiwan and have been the vendors of our customers for a long time with well-established business relationships with our customers. They also have customers which are not the customers of the Group. They have strong cost competitiveness and they are innovative (like having glass casing capabilities and in-mould transfer (IMT) technology on plastic casing), have become increasingly strong and competitive in all areas at a fast pace and their margins are in general better than the Group. A research in analyst reports and quarterly reports (in 2018 quarterly results) and annual reports of the 5 major competitors/peers had been conducted in-house and the study showed that their performances varied but was in general deteriorating in 2018. These peers' core businesses are diversified. Apart from mechanical business, they also engage in other businesses. For these 5 peers, their core and other businesses and 2018 performance are listed as follows:

(i) Peer 1 is a Hong Kong listed company whose core businesses are acoustics and haptics optical applications. Its mechanical business is comparatively small and thus in its 2018 third quarterly report there is no separate disclosure of its mechanical business, but it stated that it will continue to provide metallic frames and casing for more high-end and mid-range Android models;

(ii) Peer 2 is a Hong Kong listed company whose business includes handset component making (including casing, mould/keypads and battery chargers) and is an EMS/ODM service provider for handset OEMs and also provider for a wide range of metal, glass, and ceramic designs. Its 2018 first half gross margins declined a bit year-on-year, which is in line with the concerns on the intensifying competition in the metal casing industry and margin pressure from the metal casings business and new business still in the infant stage with potential diluted margins;

(iii) Peer 3 is a PRC listed company whose shares listed in Shenzhen Stock Exchange and its core business also includes IMT casings and glass casings and water-proof components. In its recent announcement of the unaudited 2018 business performance, it expects a year-on-year 70%–98% decline in its net profit, the gloomy 2018 result was attributable to sluggish demand for smart phones and higher R&D expenses from investing in new projects. Peer 3 is expecting to increase its non-smart phones business to more than 50% of revenue contribution within the next three years;

(iv) Peer 4 is a Hong Kong listed company whose business includes mobile communication terminal, digital and optoelectronic products such as precision mobile phone metal appearance, mobile phone metal frame, precision shielding, micro precision connectors respectively. Its latest profit warning announced its unaudited FY2018 profit attributable to the shareholders would decrease by 40% to 50%, as compared to the last year due to rapid decline in the shipment volume and the unit price of its metal handset casings in the second half of 2018 and the impairment made on its inventory; and

(v) Peer 5 is a Taiwan listed company which specialises in light metal casing and its products include computers, communication and other consumer electronics. Due to the sluggish market, its 2018 third quarterly result was disappointing and recorded a gross margin of 2% and a net loss of 10% (as compared to a gross margin of 17% and a net margin of 7% for the same period in 2017).

With markets demanding multi-functionality, thinness and eco-friendly phones, metal materials have been a trend and gained widespread popularity. Apart from having high ventilation efficiency with great tensile strength, metal materials also look contemporary and stylish and this means that casing business is a sustainable business. Therefore, the Group is now devoting itself to improving existing technologies and manufacturing, delivering innovation on both processes and materials, enhancing the core competence and capability of mechanical engineering (which is critical to the successful running of casing business), quality and efficient customer responsiveness and speed, shorter mould manufacturing cycle time and cost effectiveness and efficiency of casing business and optimising production costs like direct labour costs and yields and benchmark costs of our own manufactured mouldings and tooling against market prices. China domestic labour costs have risen sharply, yet the efficiency of assembly line workers has not increased correspondingly and the cost advantage of China is no longer comparable with other countries in Southeast Asia.

System assembly business of OEM business model, which is the major business model of the Group, has a low barrier to entry and low gross margins. In terms of competition analysis, the Group only earns processing fees and manufacturing fees while yield, efficiency and quality differentiation are of critical importance to reducing customers' price sensitivity and developing long-term business relationship. For our Indian operation, we are strong as we own very large system assembly capacity and there is vertical integration from PCBA to complete handset assembly. Peers of OEM business include Taiwan, China and U.S. companies. In relation to a Taiwan peer who is a Taiwan listed company which offers a wide range of electronics products in computing, it also engages in the development, design and manufacturing of peripherals and components of the above-mentioned products. Referring to its published first nine months result, its gross margins decreased from 4.2% in 2017 to 3.3% in 2018, and its net margin also decreased from 1.8% in 2017 to 0.8% in 2018. In its conference material, it mentioned that the decreases in margins were mainly due to keener market competition, increased people cost and higher components price. Another peer is a PRC listed company which started with OEM business and has become an OEM/ODM company as the competition in the system assembly industry is intense due to the low entry barrier that attracted a large number of competitors. The first nine months' result showed its gross margin was 7% but its net loss margin was 1.5% (versus a gross margin of 8.2% and a net margin of 2.7% for the same period in 2017). During a conference the management mentioned that the decreased margin was caused by the increased customs tax and fluctuation of exchange rates which led to higher procurement prices of foreign components. The remaining peer is a reputable U.S. listed company which is an Electronics Manufacturing Services (EMS) provider focusing on delivering complete design, engineering and manufacturing services to aerospace and defense, automotive, computing, consumer, industrial, infrastructure, medical, clean technology and mobile OEMs. According to its second quarterly report of the financial year 2019 (for the three months ended September 30, 2018), the U.S. GAAP ("U.S. Generally Accepted Accounting Principles") net income decreased by 58% year-over-year and adjusted net income only increased by 7.6%. The management mentioned during a conference call that the consumer electronics products segment had accounted for the majority of the decline in its performance. In the face of the profit and revenue challenges in the business, the company is actively managing underperforming accounts and revamping its go-to-market strategy to be selective on partnering with well-funded, leading multinational brands that control multiple categories of products and have regional demand requirements. The above comparison with the 3 peers showed that the market is highly competitive and the margins of system assembly business/industry is narrow.

The Group had experienced a foreign exchange loss of US$112 million for the current period of which the depreciation in Indian rupee ("INR") has the largest exchange exposure to the Group. The INR has weakened sharply against USD (U.S. dollar) and is down by over 10% throughout 2018 which resulted in exchange loss to the Group due to the settlement of account payable denominated in USD. For the third quarter in 2018, the INR further depreciated due to the high oil price and state assembly election in India. The inflation has finally stabilised starting from November 2018.

To carry out forward hedge of INR which comes with certain costs due to interest rate differences between INR and USD, the Group has implemented a currency adjustment mechanism with its customers to mitigate future foreign exchange risk. For 2019 outlook, the INR will be relatively stable in the trench of 70–72 versus the record high of INR at 74. Two major reasons which caused the depreciation of INR in 2018 were high oil price and uncertainty of state assembly election, although OPEC members has increased its oil output and there was no surprise in state election, the recent U.S. sanction on Venezuela will tighten the oil supply and the general election in May 2019 might lead to the depreciation in INR. The Group has been closely monitoring the extremely volatile foreign exchange/money market to reasonably and meaningfully ascertain the possible foreign exchange-related losses and their impacts on the Group's overall performance at the relevant times when 2019 is progressing.

Regarding operating expenses for the current period was US$613 million, when compared with US$620 million for the same period last year. Because of the continuing investment in the IIDM business relating to the Nokia-branded phones in 2018, there was a year-on-year increase in selling expenses and R&D expenses. For selling expenses, the increase was mainly due to the increase of marketing expenses like digital and below-the-line marketing and communication and advertising expenses, expenses for external cooperative field force and promoters and sales incentive, etc., for marketing smart phones associated with an increase in the distribution volume of Nokia-branded phones. The selling expenses of Nokia-Branded phones will decrease in 2019 dramatically as the Group discontinued TNS's distribution business. For G&A expenses, they mainly include spending on professional fees (legal and accounting firms), recruitment fees, IT services and license fees of application systems, depreciation and maintenance expenses for the accounting system, travelling and rental expenses and salaries. However, as some of the expenses like the professional fees and recruitment fees incurred in 2017 were non-recurring ones and there is no such expense in 2018, and there was also a reduction in payroll costs and overheads in 2018, there has been a year-on-year decrease in G&A expenses. For R&D expenses, there is a continuous investment in product innovation in order to remain competitive and offer unique values to customers.

Net profit and net profit margins are the financial KPIs measuring earnings/losses resulting from subtracting operating expenses and other losses (such as equity investments fair value change losses) and tax and interest costs from gross profit earned. It measures the ability to control operating expenses and optimise tax and interest costs and minimise other kinds of losses (such as equity investments fair value change losses). These are key indicators of the Group's business as explained above. In light of the factors mentioned above, loss attributable to owners of the Company for the current period was US$857 million, as compared to a net loss attributable to the owners of the Company of US$525 million for the corresponding period last year. The net loss margin for the current period was 5.7%, as compared to the net loss margin of 4.4% for the same period last year.

As at 31 December 2018, 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 39.97% negative, when compared with the ROE as at 31 December 2017 of 16.56% negative. The Group strived to achieve a better ROE.

Income tax expense during the current period was US$17.0 million, representing a decrease by US$12.8 million when compared to income tax expenses of US$29.8 million for the same period last year. The decrease was mainly due to the decrease in profits and reverse of deferred tax assets during the current period.

During the period ended 31 December 2018, impairment loss of US$6.1 million, US$79.4 million and US$84.8 million was recognised for property, plant and equipment, goodwill and interests in associates respectively. Impairment loss of US$202.5 million was recognised for available-for-sale investments for the year ended 31 December 2017.

During the period ended 31 December 2018, fair value loss of US$44.8 million (2017: nil) was recognised for convertible notes.

Basic loss per share for the current period was US10.57 cents.

Dividends

The form, frequency and amount of dividends to be declared each year and dividend pay-out ratio will be dependent upon the Group's financial performance and cash flow generated from operations, projected working capital and capital expenditure and capital requirements, cash position and other relevant factors as the Board may deem appropriate.

No dividend was declared or proposed for the year ended 31 December 2018, nor has any dividend been proposed since the end of the current period.

Sales

For the current period, the Group recognised a consolidated revenue of US$14,930 million, representing an increase of US$2,850 million or 23.59%, when compared to US$12,080 million for the same period last year, thanks to the Group's continuous development and penetration of the Chinese and international brand customers and efforts to expand production capacity in India and the continuous running of the IIDM business relating to the Nokia-branded products and the entering into collaboration with a U.S.-based internet customer. Since 2017, the Group started to generate growing sales revenue via manufacturing and selling phones to HMD and distribution service income from such collaboration until the adjustment to the collaboration model happened in the end of 2018. The Group also succeeded in increasing system assembly sales of low gross margins in the current period, though there was a significant decline in its casing business in the current period due to product mix changes. By the way, the Group will continue to provide system assembly service of consumer electronic products such as e-Readers, tablets and voice interaction products to an international brand. This brand now offers lower-price products to penetrate the market.

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 have been market share reshuffles between international brands and other market players (such as Chinese brands), and the Group saw diversing performance across its customers and there was rapid shift among certain Chinese OEMs manufacturers and the market shares of some of the Group's major customers belonging to international brands had declined quite dramatically in 2016, and hence some of them had drastically changed their outsourcing strategies through restructuring and in-house production, thereby cutting down the previously established outsourcing business with the Group, which had a direct impact on the Group's sales in 2016. For 2017 and 2018, the competition continued to be fierce and price and margin erosion was still ongoing. Various research companies remained cautious of future smart phone shipment growth. Looking at some of the research reports of leading research firms, we can realise the risks and concerns over future growth of handset shipment.

According to the International Data Corporation (IDC) Worldwide Quarterly Mobile Phone Tracker published on 11 December 2018, worldwide smartphone shipments are expected to decline by 3% in 2018 before returning to low single-digit growth in 2019 and through 2022. Smart phone shipments are expected to drop to 1.42 billion units in 2018, down from 1.47 billion in 2017. IDC anticipates a flat 2019, over the long-term, smart phone shipments are forecast to reach 1.57 billion units in 2022. Reports mentioned that the declines were mainly attributable to the lack of further innovation in the current generation of handsets, especially in the highly saturated developed markets where replacement cycles were lengthening with overall smart phone features and the slow revival of China was one of the reasons for low growth in the third quarter of 2018 and this slowdown will persist into the first quarter of 2019 as the market is expected to drop by 3% in the fourth quarter of 2018. Further investigating into the China market has proven IDC's concern, as the report published by the China Academy of Information and Communications Technology (CAICT) on 28 January 2019, it showed the 2018 China domestic mobile phone shipments dropped by 15.6% to 414.2 million units and the number of new model release dropped by 27.5% to 764 models year-on-year respectively.

In contrast with the negative growth smart phone market, Counterpoint released a report on 19 December 2018 showing the shipments of feature phones grew for the fourth consecutive quarter until the third quarter of 2018 and feature phone remains a sizeable market which contributed to 23% of the total handset shipments. The report also mentioned, the return of Nokia HMD has also fueled the demand for feature phones in the market. Nokia 3310 has been a smash hit with nostalgia and good built quality that has helped HMD to become the second largest feature phone player globally in the third quarter of 2018. Counterpoint concluded the under-penetrated emerging markets, feature phones will remain relevant for at least next five years as new low-income users would likely experience mobile phone through a feature phone first. In addition, the lack of well-established infrastructure facilities (such as electricity and high speed mobile network coverage), the introduction of 4G feature phones and the availability of social networking applications like WhatsApp and Facebook are some of all the reasons why there is still a sizeable user base for feature phones.

In addition, India has knocked Vietnam's into the third place in mobile phone manufacturing. India now accounts for 11% of global mobile phone production, according to research done by the Indian Cellular Association (ICA) announced on 28 March 2018. With the rise in mobile phone production in India, imports of the devices in India also reduced to less than half in 2018 compared with previous year due to the increased custom duty and industry insiders believe the local production is expected to increase to 90% as most brands choose to assemble mobile phones locally.

P&L (Profit and Loss)

With diffusion of innovation and technology, the smart phone industry has been already commoditised. Highly homogenous products have increased the competition in the market as it became more fragmented and modular structure of the industry has lowered the barriers for the new entrants to enter the market and offer products with high specifications for an affordable price to consumers. The smart phone industry is characterised by modularity just like the computer industry has been. The significance of modular designs has been linked to the rapid rate of innovation in the industry and contract manufacturing along with modularity has given rise to the competition in the industry as new players enter the business with the ability to produce at low cost but high efficiency. As mentioned in the above sections of "Financial Performance" and "Sales", for 2018, the year-on-year increase of sales was mainly attributable to the corresponding expansion of system assembly business of low gross margins. In particular, as mentioned in the "Financial Performance" section above and "Outlook" section below, the biggest challenge continues to be the IIDM business relating to the manufacturing of Nokia-branded products and the manufacturing and distribution of Nokia-branded phones which are still in the difficult stage of increasing volume and margin performance is generally bad. At the same time, there are changes in product mix and crowded competition in casing business (resulting from surplus capacity in the casing sector) and weak system assembly business margin and growingly high manufacturing costs, all these have induced heavy pricing pressure on the Group and hence inevitably imposed pressure on gross margins. As mentioned above, the smart phone market demand was weaker than expected especially in the last quarter of 2018, which inevitability put an enormous pressure on the Group's distribution business by demanding more resources to the channel while price erosion pressure and selling expenses increased.

In general, 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 sourcing materials with competitive prices. Furthermore, there has been continuous strong support from the Hon Hai Group to offer in scale, solid component support and stable supply of key components and a vertically integrated supply chain that allows for production synergies. The Group can leverage on the Hon Hai Group's resources, giving the Group more flexibility in outsourcing capacity.

Geographical segment (please refer to note 5 to the consolidated financial statements)

- Asia segment:

  Asia segment was the Group's core performance contributor in terms of sales turnover and segment profit and this continued in 2018. The revenue of Asia segment in the current period was US$11,771 million, representing an increase of 14.93% from that for the same period last year (31 December 2017: US$10,242 million) and the growth was mainly due to the growth of OEM system assembly business of low margin of Chinese brand customers and an international brand. There are also sales generated by the IIDM business relating to the manufacturing and assembly of Nokia-branded products by the Group's manufacturing entities to HMD in India. In the current period, Asia segment's recorded earnings were US$224 million which were lower than the recorded earnings of US$237 million for the same period last year, mainly because of the poor gross margins. Segment profit (loss) represents the gross profit earned (loss incurred) by each segment and the service income (included in other income) after deducting all selling expenses. The margin compression risk will increase as Asia segment sales growth is driven by system assembly business which has a lower gross margin. Due to crowded competition and excess capacity in casing industry, gross margins of casing business continue to face pressure this year (especially in the second half of 2018). 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 and devoted resources to Asia segment including India after the downsizing of European sites so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment (especially in India) and develop more new businesses and customers. The Group has kept active in India and the expansion of capacity in India keeps on going.

  The Group has continued to review its global capacities to optimise resources and capacity in emerging markets like India and Vietnam and further align its manufacturing capacities with the geographic production demands of customers in light of the trade war risk. The Company believed that outside Asia/Pacific, the biggest regions for growth will be the Middle East, Africa, and Latin America. All these three regions have relatively low penetration rates and plenty of upsides. In anticipation of the good opportunities mentioned above, the Group has already set up and maintained handset assembly factories in India for years and has helped certain Chinese brand customers to develop business and grasp more market shares in India and overseas markets outside of China in the past couple of years. Sales of the Group's Indian operations in the current period were about 48.53% more than that of the same period in 2017 due to the dramatic growth of the business of a Chinese brand customer in India and the start of manufacturing of Nokia-branded phones. The Group's factory operation in India is one of the largest contract manufacturers in India and the Group will continue to optimise infrastructure and capacity in anticipation of more new Chinese customers in India and the Group has injected additional capital of US$100 million in its operation in India in January 2018.

- Europe segment:

  The recorded revenue of Europe segment in the current period was US$2,026 million when compared with the recorded revenue of US$1,648 million for the same period last year. The revenue of Europe segment increased in the current period as the Group has continued to manufacture feature phones and smart phones in Asia (China, India and Vietnam) under the IIDM business relating to the Nokia-branded phones and sell the phones to HMD which is a Finnish company. But as the IIDM business started to grow a lot in the second half of 2017, comparatively speaking, this explains why YTD December 2017 sales were comparatively smaller. The recorded loss of this segment in the current period was US$369 million, when compared with the recorded loss of US$162 million for the same period last year. As explained in above "Financial Performance" and "P&L" sections, the gross margins performance for the IIDM business relating to the Nokia-branded phones was particularly bad and was making loss as there was fierce price competition and the selling price of the Nokia-branded phones to the end market had to be competitive upon its re-launching to the handset market and the Group's as a partner to HMD, the selling price and gross margins of phones manufactured by the Group was under huge pressure as there was no economy of scale yet in terms of sourcing as the business was still at the stage of building up momentum and scale rendering the Group unable to buy at competitive prices from suppliers and the BOM cost was higher than the selling price. TNS sells and distributes some of the handsets throughout the European markets for HMD and earns distribution service income. The performance of Europe segment has deteriorated dramatically which has affected the performance of the Group adversely and the Group has been monitoring more closely and then assess the impact of the loss-making of this segment on the Group's overall performance and cash flow and make necessary adjustments to business strategy.

- America segment:

  For America segment, because of the loss of market shares and change of outsourcing strategies, certain key customers of the Group which previously shipped a lot of products to America segment have reduced their orders in the Group since 2016, thus leading to further shrinkage of sales of America segment in 2017, thereby further adversely affecting performance of this segment. In 2018, the recorded revenue of America segment in the current period was US$1,134 million when compared with the recorded revenue of US$190 million for the same period last year and the year-on-year increase came from the increase of sales to a U.S.-based Internet customer. Core businesses (both now and under development) of American segment entities in the U.S. and Mexico are mainly provision of services including reverse logistics, repair and refurbishment of smart phone for OEMs and carriers and sales of phones to small U.S. customers. The recorded earnings for the current period were US$36 million when compared with the recorded earnings of US$28 million for the same period last year. The performance of America segment did not have a significant adverse impact on the Group's overall performance as the focus of the Group has shifted to Asia segment and IIDM business of Europe segment and sales and earnings of America segment now have become insignificant to the Group's overall sales and bottom line. But in 2019, significance of America segment may increase as there is a new U.S. customer.

Investments

On the basis that the value of each of the investments mentioned below as at 31 December 2018 does not exceed 5% of the Group's total assets as at 31 December 2018, the Group does not consider any such investment as a significant investment for the purposes of the Listing Rules.

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

Investments in New Business relating to Nokia-Branded Products

On 18 May 2016, the Group entered into an agreement with Microsoft (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). This transaction included goodwill of US$79.4 million. Due to the unsatisfactory performance in 2018 and based on the valuation carried out by independent professional valuer, the Group has fully impaired the goodwill of US$79.4 million. HMD has been engaging exclusively in the Nokia-branded products business, and the Group has continued to develop business with HMD covering primarily the manufacture of feature phones and smart phones together with accessories in Asia (China, India and Vietnam) under the manufacturing agreement between HMD and the Group.

In second quarter of 2018, HMD started shipping the next generation portfolio of Nokia 3.1, Nokia 6.1 and 8110 4G worldwide. HMD has received great consumer feedback about new generation products. On top of this, HMD introduced Nokia X6 in China as a smart phone specially addressing the new age Nokia phone users in Chinese market. In second half of 2018, HMD launched 3rd generation of Nokia smart phones: Nokia 3.1 Plus, Nokia 5.1, Nokia 7.1 and Nokia 8.1, which also received great feedback from consumers especially about design and camera features of Nokia 8.1.

In January 2019, HMD launched collaboration with three leading wireless providers in North America — Cricket Wireless and Verizon in the U.S. and Rogers Communications, Inc. in Canada.

2018 was the second operational year for HMD. HMD continued experiencing strong revenue growth driven by the price point expansion in smartphone portfolio and feature phone business achieving #1 position in the global market. In general smartphone market was declining year over year and more visibly in China. This market size decline further fueled price competition and it was most likely motivated by industry level excess inventory and liability clearance. HMD was not immune for this market phenomenon and it was reflected in profitability during the second half of 2018. At the same time strong USD was difficult to manage without cutting margins. This headwind impacted HMD Smartphone volume ambition in the second half of 2018 and thus some fixed nature commitments were further hitting negatively in reported gross margin. This gross margin decline was partially managed by reducing investment level. OPEX (Operating expense) run rate was managed well half over half to reflect lower margins from smartphone business. At the same time marketing investment profile was naturally weighted into first half of 2018 due to timing of majority of product launches. Feature phone business was very stable and small ASP (Average Selling Price) drop was offset by volume growth.

In May 2018, the Group invested US$62 million in HMD, which represented about 6.2% (calculated on as-converted and fully-diluted basis) of the total issued shares of HMD as at 31 December 2018. The Group has designated the investment in HMD as fair value through other comprehensive income ("FVTOCI").

The Group previously invested US$2.5 million in an exempted limited partnership registered in the Cayman Islands with its sole activity to invest in HMD. The Group's total investment represented about 29.76% of the partnership as at 31 December 2018. After IFRS 9 became effective in 2018, the Group has designated the investment as FVTOCI for which independent professional valuer was engaged by the Group to perform the valuation.

Other Major Investments

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

The Group invested in Mango International Group Limited ("Mango"), a company which offers mobile services in the tourism sector. The Group's total investment in Mango represented about 17.84% (calculated on as-converted and fully-diluted basis) of the total issued shares of Mango as at 31 December 2018 and it is booked as Interest in an Associate subject to impairment testing. Mango successfully received a new investment in April 2018, and also received a term sheet for further financing in 2019 to finance their global roll-out plans. Although Mango expects the above mentioned fund raising will be secured by the date that finalizing this report, the potential investor of Mango is still working on due diligence and Mango is approaching other potential investors hence no funding has been received. The investment team will keep monitoring the progress of Mango's funding and act in the best interests of the Group. The Group engages an independent professional valuer to estimate its share of the present value of the estimated future cash flows expected to be generated from Mango, including the expected dividend income from Mango and the proceeds from the ultimate disposal of the investment. Considering the material uncertainties and doubts of going-concern, the Group has decided to fully impair the carrying value of the Group's investment in Mango amounted to US$77.2 million. In performing the fair value measurement of convertible notes, the management has subsequently exercised the Group's right, while considering Mango's ability to continue as a going concern and its repayment capacity, a fair value loss of US$44.8 million was recognised for the convertible notes during 2018.

The Group invested US$24 million equity investment in Meitu, Inc. since 2014 (the shares of which are listed and traded on the Stock Exchange with stock code: 1357, "Meitu" in 2016), which is a leading mobile internet platform company engaged in photo and video applications. In 2018 the Group disposed of all the remaining shares to maintain a healthy cash flow for its core business and control future impact from the change in fair value. Therefore, the Group received a total of US$40 million in value for its initial US$24 million investment. After IFRS 9 became effective in 2018, the Group has designated the investment in Meitu as fair value through profit or loss ("FVTPL"). As at 1 January 2018, US$55 million of unrealised revaluation gain for its share price growth in the market previously recognised as "Other Comprehensive Income" was reclassified to "Retained Profits" by the Group, while there is US$54 million fair value loss recognised in 2018 since the share price decreased by around 80% during the period.

In August 2016, the Group invested approximately US$50 million in Hike Global Pte. Ltd. ("Hike"), an Indian-based social media application developer. Hike built up an instant peer-to-peer messaging application with localised lifestyle functions. In 2018, MAU/DAU (Monthly Active User/Daily Active User) of various functions and content did not meet Hike's expectation, so Hike continuously introduced multiple types of content (e.g. hike daily, stickers, gifs, banners, etc.) to further improve user experience on its core products. In addition, Hike launched new apps to enhance its overall MAU base. With sufficient capital, Hike would keep improving the core products especially the social content, and try to develop more valuable products and services for the users in the future. Based on the performance in 2018 and the adjustment for the future cash flow, the Group decided to recognise appropriate fair value loss to its investment. The amount is measured using the fair value model based on a valuation performed by an independent qualified professional valuer (the "Valuer"). In determining the fair value of the investment in Hike, the Valuer has applied income approach. The income approach was considered to be an appropriate valuation approach in the valuation, as it takes the future growth potential and firm-specific issues of Hike into consideration. Under the income approach, the discounted cash flow (DCF) method is adopted in the valuation. The DCF method is the most fundamental and prominent method of the income approach. In applying the DCF method, the free cash flows of the subject asset in future years are determined from the net income after tax plus non-cash expenses, such as depreciation and amortisation expenses, and after-tax interest expense; the result is then less non-cash incomes, investment in capital expenditure and investment in net working capital. After IFRS 9 became effective in 2018, the Group has designated the investment in Hike as FVTOCI.

Other Investments

The Group invested about US$5 million in Razer Inc. (the shares of which are listed and traded on the Stock Exchange with stock code: 1337, "Razer"), a leading global lifestyle brand for gamers, with dual headquarters in San Francisco and Singapore. Razer is one of the most recognised brands in the global gaming and e-sports communities. The company has designed and built the world's largest gamer-focused ecosystem of hardware, software and services. In May 2018, Razer completed the acquisition of Malaysia's MOL Global, Inc. ("MOL") to engage in an e-payment platform in Southeast Asia for gaming ecosystem and increased its service revenue. MOL's payment gateway is also utilised by some of the most prominent and fastest-growing companies such as Lazada, Grab and UNIQLO. In October 2018, AT&T signed up as the first U.S. carrier to launch Razer Phone 2. Although the company did not reach its breakeven point in 2018, the Group believes that Razer will keep expanding its product lines and cooperate with the Group to create a comprehensive and seamless gaming experience for its global users in 2019 due to the large and growing gamer TAM ("Total Addressable Market") and Razer's unique combination of brand, ecosystem and global footprint. As at 1 January 2018, US$6 million of unrealised revaluation gain for its share price growth in the market previously recognised as "Other Comprehensive Income" was reclassified to "Retained Profits" by the Group since the initial application of IFRS 9. After IFRS 9 became effective in 2018, the Group has designated the investment in Razer as FVTPL. There is US$8 million of fair value loss recognised in profit or loss during 2018 since the share price decreased by around 73% during the period. As at 31 December 2018, its fair value amounted to US$3 million and represented about 0.26% of the total issued share of Razer.

The Group invested in CExchange, LLC ("CEx"), which engages in the business of consumer electronics trade-in and buy-back in the U.S. since 2014, for a cumulated US$11.8 million in the past few years. In 2018, the loss of a significant customer and low sales volume impacted CEx's overall income, which resulted in a sustaining loss. Thus, the Group has decided to recognise a full impairment loss on investment in CEx amounted to US$7 million.

The Group also made certain investments in other companies designated as FVTOCI mainly in the People's Republic of China ("PRC"), India and the U.S. in the past few years. In PRC, the Group's investments mainly include a distributor of mobile devices and accessories, which is quoted and traded on the PRC's NEEQ (National Equities Exchange and Quotations) and an operator of cloud-based systems for intelligent robots since early 2015. In India, the Group's investments mainly include a data-driven advertising technology company. In the U.S., the Group's investments mainly include a digital photography company that has developed a multi-lens and multi-sensor camera designed for embedding in smart phones and mobile devices, and a high-end Android smart phone company led by a group of experienced experts in the mobile industry. As at 31 December 2018, the total fair value of Group's equity investments designated as FVTOCI was US$119 million, which representing 1.34% of the Group's total assets.

Other Investment-Related Matters

In such a dynamic and volatile equity investment market, the Group's investment team is cautious always, and therefore the team will continue to monitor the performance and financial position, cash flow, burn rate and fund-raising activities of investees, related macro-economic factors and competition landscape and technological changes and innovation, viability of business models as well as execution capabilities of the respective management teams of those investees. In 2018, The Group had disposed of some investments in listed companies, and also impaired a few investments which had less than ideal performance. The investment team maintains a close relationship with the managed investees, and conducts periodical in-house analyses. Based on the result of the analyses, the investment team will consider hedging the risk exposure should the need arise. The Group currently expects no substantial loss arising from the change in the total fair value of the Group's investments in certain listed companies in 2019.

In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring and evaluating good investment potential opportunities that can add value to the Group and the Group's investment strategies will be adjusted to be more focused on 5G and AI for building up the phone ecosystem portfolio including but not limited to IoT (Internet of Things) smart devices, smart home products, online gaming or others for synergies creation via establishing strategic partnerships with technology companies. Among the characteristics that we look for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations; favourable long-term growth prospects; and cultural fit with the Group. The Group has an experienced investment team and will continue to hire talents and has prioritised investments of comparatively low risks and with long-term growth prospect which may take years before the investment can be realised. As a whole, the Group will be cautious on expanding its investment portfolio to create synergies but at the same time to cope with the possible uncertain economic environment and volatility of the capital market in 2019.

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

Compliance with Relevant Laws and Regulations

During the current period, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the Group, examples of which include those relating to foreign investment, taxation, import and export, logistics and distribution, foreign exchange control and intellectual property, and (as the Company's shares have been listed and traded on the Stock Exchange) applicable requirements laid down by the Listing Rules and the 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, investment structures, funding arrangements, business models, supply chain and general operations have been structured and optimised in a tax-efficient, cost-effective and robust manner, taking into account (among other things) commercial and financial perspectives and applicable legal/regulatory requirements in multiple jurisdictions. In this respect, the Group's major operating subsidiaries fall under different tax regimes in the PRC, Taiwan, India, Vietnam, Finland, Mexico and the U.S. where different tax laws and regulations as well as specific concessionary incentives apply. During the current period, the newly-promulgated local tax laws and regulations that have a significant impact on the Group are highlighted and summarised as follows:

- PRC

  For VAT (value-added tax), by way of background, in May 2016, VAT reforms were implemented nationwide replacing the previous business tax. VAT was extended to the sale and importation of goods and provision of services in or to the PRC, including construction, real estate, finance and consumer services. The unification of a single VAT system enabled businesses which were already VAT taxpayers to generally be able to claim input VAT credits for the goods and services they purchased or consumed from those sectors that were VAT taxpayers, and businesses, as general VAT taxpayers, became eligible to claim input VAT credits for the goods and services they purchased or consumed. 2018 began with a war on customs duties that shocked the world economy. To avoid kickbacks and further stimulate the economic growth via reducing tax burdens on enterprises, the PRC State Council decided to reduce the current VAT rate, and on 4 April 2018, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) jointly issued a new circular (Caishui [2018] No. 32, or Circular 32) to reduce the VAT tax rate for manufacturers from 17% to 16%. From an enterprise's perspective, this VAT reform is good news and is favourable to the Group as less cash will be needed for domestic purchases.

  There are also other tax cut measures. For example, on 7 May 2018, the MOF and SAT issued a regulation (Caishui [2018] No. 51) to increase the maximum tax-deductible employee education fee from 2.5% to 8% of total salaries. The excessive portion could be carried forward to next year(s) for tax deduction purposes. The new cap of yearly tax-deduction rate is applied from the year 2018 and onwards. Also, to encourage investments in R&D, during the period from 1 January 2018 to 31 December 2020, equipment or machinery, newly purchased for R&D activities, is eligible for a 100% immediate tax deduction for CIT (Corporate Income Tax) purposes, on the condition that the unit price of each item of equipment or machinery is individually less than RMB5 million (previously RMB1 million under SAT announcement [2014] No. 64). Additionally, on 22 September 2018, the MOF and SAT issued a new circular (Caishui [2018] No. 99) giving a super deduction of 175% of the R&D expenditure before tax. From an enterprise's perspective, these tax cut measures have worked in the Group's favour at least to reduce the Group's PRC tax expenses to a certain extent.

- India
  BCD (Basic Customs Duty) on imported mobile phones was increased gradually from 0% to 20%, aiming at encouraging the Indian Government's "make-in-India" initiatives. The new regulation is in favour of the Group as it has already established a very large scale mobile phone manufacturing capacity in India for existing and potential customers. However, with effect from February 2018, BCD on certain imported parts of and ancillary to mobile phones (such as antenna, battery, mechanics, headphones and USB (Universal Serial Bus) cables) has been increased from 10% to 15%. Also, since April 2018, the Indian Government also imposed BCD on imported specified parts of and ancillary to mobile phones (such as PCB (Printed Circuit Board), connectors and camera modules). As the Group has established its SMT (Surface Mount Technology) line in India, the Group has started offering domestic PCB manufacturing services to its customers to mitigate the impact of BCD. For the imported parts impacted by BCD, the Group continuously works with its customers to procure the corresponding parts domestically.

- The U.S.
  For U.S. tax reform and tax cut, the Group considers that there will not be much impact on the Group as the U.S. tax exposure from the Group's operation is comparatively small.

Apart from the above, the Group also takes into account the relevant laws and regulations regarding transfer pricing, in order to ensure efficiency and sustainability of the operating models and global tax footprint as well as sufficient tax risk management. During the current period, apart from the above, there were no major changes in applicable tax laws and regulations which have a significant impact on the Group's tax expenses, and the Group will continue to monitor possible impacts and implications arising from applicable new and/or revised tax laws and regulations. Also, the Group has been closely following the global and local level developments following the Base Erosion and Profit Shifting (BEPS) Action Plans of the Organisation for Economic Cooperation and Development (OECD). The Group is committed to duly comply with applicable laws and regulations introduced or updated due to the BEPS Action Plans, including the increased documentation requirements triggered by the local transfer pricing documentation and CbCR (Country-by-Country Reporting) obligations in the jurisdictions where the Group operates. The Group falls into the CbCR scope of the Company's ultimate controlling shareholder Hon Hai for such purposes.

The Group has kept abreast of the accelerating pace of tax, legal and regulatory developments in the different jurisdictions in which its key operations are located, and there are on-going reviews of existing investment holding structures and operations as well as business models and capital structures in light of the latest tax, legal/regulatory and business requirements and environment. In this respect, the Group's major operating subsidiaries have taken appropriate steps (e.g. by consulting with legal advisers) to ensure that each of them is aware of the local laws and regulations that have a significant impact on its business operations and takes these relevant local laws and regulations into account in relation to its business operations, business model(s) and value chain management, as appropriate. The Group believes that it complies with applicable relevant local laws and regulations in all material respects. The Group has also complied with applicable requirements laid down by the Listing Rules and the SFO.

The Group has also responded to trade restrictions imposed by the relevant jurisdictions on components or assembled products by obtaining and maintaining 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.

In relation to the Group's compliance with the relevant laws and regulations that have a significant impact on the Group in respect of environmental, social and governance aspects, please refer to the Company's separate 2018 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

The Group will continue to monitor compliance with all these relevant laws and regulations on an on-going basis.

Liquidity and Financial Resources

As at 31 December 2018, the Group had a cash balance of US$1,419 million (31 December 2017: US$1,980 million). Free cash flow, representing the net cash used in operating activities of US$814 million (31 December 2017: US$113 million) minus capital expenditure of US$277 million (31 December 2017: capital expenditure and dividends of US$362 million), was US$1,091 million outflows (31 December 2017: US$475 million outflows). Free cash flow deteriorated during the current period. 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$1,427 million (31 December 2017: US$713 million) over total assets of US$8,904 million (31 December 2017: US$8,788 million), was 16.03% (31 December 2017: 8.11%). All of the external borrowings were denominated in USD (31 December 2017: 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 a fixed rate ranging from 2.76% to 4.40% (31 December 2017: fixed rate ranging from 1.72% to 2.40%) per annum with an original maturity of two to twelve months (31 December 2017: one to six months).

As at 31 December 2018, the Group's cash and cash equivalents were mainly held in USD and RMB.

Net cash used in operating activities for the twelve months ended 31 December 2018 was US$814 million.

Net cash used in investing activities for the twelve months ended 31 December 2018 was US$379 million, of which, mainly, US$277 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites mainly in the PRC and India, US$37 million represented placement of bank deposits, US$3,087 million represented purchase of short-term investments, US$68 million represented purchase of equity instruments at FVTOCI, US$10 million represented proceeds from disposal of property, plant and equipment, US$24 million represented proceeds from disposal of equity instruments at FVTPL and US$3,056 million represented proceeds from settlements of short-term investments.

Net cash from financing activities for the twelve months ended 31 December 2018 was US$703 million, primarily due to net increase in bank borrowings of US$729 million and interest paid of US$26 million.

Exposures to Currency Risks and Related Hedges

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

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

Capital Commitments

As at 31 December 2018, the capital commitments of the Group were US$7.9 million (31 December 2017: US$4.3 million). Usually, the capital commitments will be funded by cash generated from operations.

Pledge of Assets

There was no pledge of the Group's assets as at 31 December 2018 and 31 December 2017.

Donations

The Group has, in the financial year ended 31 December 2018, made donations for charitable or other purposes to a total amount of approximately US$58,000.

Outlook

Smart phone shipments growth hits the ceiling and has been continuously slowing down since 2017. Although there are still opportunities from the implementation of the fifth generation communication technology (5G) and industrial innovation, the risk of saturation in the smart phone market remains high. Competition would therefore be increasingly intense, among OEMs as well as along supply chains, leading to price declines and affecting revenues and margins.

The tension of the trade war between the U.S. and China escalated to a historical high when both sides have imposed tariffs on billions of dollars' worth of goods. The U.S. has hit $250 billion of Chinese goods with tariffs since July, and China has retaliated by imposing duties on $110 billion of U.S. products. In the recent progress, a 90-day halt in trade tariffs to allow for talks was agreed at a post-G20 summit meeting in Buenos Aires on 2 December 2018, U.S. President Trump agreed not to boost tariffs on US$200 billion of Chinese goods from 10% to 25% on 1 January 2019 and China President Xi Jinping agreed to buy a "very substantial" amount of agricultural, industrial and energy products to reduce the trade imbalance between the two countries, and Trump also announced a delay in tariff hike on Chinese goods on 24 February 2019. Fortunately, the U.S.-China trade war has not yet directly affected mobile phones as no tariffs being imposed, yet the Group will closely monitor the progress of the trade war and thanks to the Group's global mobile phone production capability, our customer would have the alternative to manufacturing outside of China.

The Group will closely monitor the resulting impact. It is good that the Group now has expanded its ups in India and Vietnam.

For handset market forecast, please refer to the "Sales" section. From market perspective, phones are now more capable and durable, which will extend the replacement cycle and consumers are not compelled to upgrade quickly. The market showed a matured growth pattern. As mentioned above, the Asia segment, with China as the focus, remains the Group's core performance contributor. For China, the world's largest smart phone market which represents roughly one third of all smart phones consumed, has been in decline since the second quarter of 2017, and the last quarter of 2018 was the seventh consecutive quarter where the market sees contraction with the shipment down by 10.5% in 2018 (worse than the 2017 downturn) according to the latest report published by IDC on 14 February 2019.

Although the Chinese market is shrinking, the top five brands can be comforted by the fact that it will continue to consolidate, and that their size will help them last longer than other smaller players. As a matter of fact, the top five brands acquired 88.9% of China domestic market share in the fourth quarter of 2018 when compared with 82.1% for the same period of last year. With the saturated smart phone market, competition among Chinese vendors will become fiercer. The rapid shift among certain Chinese OEMs may impact overall demand of the Group's end markets and future demands of the products and services to be provided by the Group. The Group's customers are striving for greater market share in the saturated market and hence the pricing of their products in the end market must be very competitive. In order to get adequate allocations from the customers and compete against players in the market, the Group has to accept the low gross margins of system assembly business with major customers. Similarly, as mentioned above, the profit margin of the casing business is also under pressure. As explained in financial performance section, due to excessive investments in mechanical capacities, the change of product mix and IMT (In-Mould Transfer) technology on plastic casing in casing industry, our peers faced similar above risks, and reported either a huge net profit decline or even net loss caused by the sluggish smart phone demand especially from the second half of 2018.

The decline in the Chinese market in 2018 led some key Chinese brands to internationalise and invest in countries and regions outside China to offset the weak demand in the domestic market. The key markets for Chinese brand expansion so far are India, South-East Asia, Europe, the Middle East and Africa. The Group has helped these Chinese brands to expand 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 experiences in managing Indian operations and providing a wide range of services in most parts 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, which can address both the domestic Indian market and export demands. The Group had injected approximately a total of US$150 million to cater for business expansion in the region and additional working capital needed as announced in January 2018 and October 2018.

From product perspective, with the popularity of innovation and technology, the smart phone industry has become commoditised and highly homogenised products with standardised specifications have increased market competition as it is more fragmented and the modular industry structure has lowered the entry barriers. The smart phone matures as an application, driving innovation in design and features and appearances. IDC announced a feature prediction towards China's smart phone products in the next few years, including a larger amount of RAM, higher penetration of OLED screen, under screen fingerprint, artificial intelligence (AI), facial recognition, AR/VR/3D modeling and 5G functionalities, and in 2022, the average unit price of the overall smart phone will reach US$416, an increase of 28% compared with 2018, yet the replacement cycle will be lengthened. In anticipation of 5G technology, innovations in the smart phone glass surface and casing are key to success. Smart phone casing manufacturing is the core competence of the Group, and we have to continue to invest in the future and be committed to developing engineering capabilities and new technologies and solutions (such as new innovative materials). However, the gross margins of casing sales will inevitably deteriorate due to overcapacity in the machinery business sector caused by industry participants' excessive investment in machinery capacity in previous years and the shift in casing design from being dominated by metal to IMT. It is expected that casing sales and gross profit will continue to decline into 2019.

As the smart phone industry is dynamic and competitive, a slowdown in growth may lead to industry consolidation, which may result in larger and more geographically diverse competitors having significant combined resources to compete against the Group and may put pressure on the supply chain. As competition remains fierce, competition from EMS/ODM/OEM peers is deemed to intensify to create pressure on the Group's business and there may be slower new customer gain with rapidly growing smart phone vendors. The Group also faces competition from the manufacturing operations of its current and potential customers (including the Group's strategic partner, HMD), whom are constantly evaluating the advantages of manufacturing products in-house against outsourcing, OEM against ODM. All of these developments could potentially cause pressure on the Group's sales and the sales mix and margins, loss of market acceptance of its services, compression of its profits or losses, and loss of its market share. To address the above challenges and uncertainties and to alleviate the impact of price erosion on gross margins, the Group must remain lean and make business and operational decisions promptly. The cycle time of new product development must be shortened to align with the product launch schedule of customers and shorten the time to market. Despite the increase in revenue due to increase in system assembly business, there has been pressure on gross margins.

To meet its customers' increasingly sophisticated needs, the Group has continuously engaged in product research and design activities to manufacture its customers' products in the most cost-effective and consistent manner, and focused on assisting its customers with product creation, development and manufacturing solutions and further strengthened IDM competence. The Group has dedicated PD (product development) / PM (product manufacturing) and R&D team whom have developed a full range of smart phones and feature phone products with innovations in industrial design, camera and audio applications to differentiate the Group's products from market competition and enable the Group to penetrate global mobile market share. The Group has fully utilised the strength of the Hon Hai Group in vertical integration for product creation. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Group, providing scale, solid experience and control in key components) are especially attractive for Chinese brands. The R&D team will continue to innovate on industrial design, image and audio quality and user experience and AI technology and innovate existing and new mobile products and to focus on user experience in social media and establishment of ecosystem. The R&D team leverages on the entire product portfolio of mobile and wearable devices to address the opportunity for consumer IoT market and differentiate the IoT products with advanced voice user interfaces, better audio and video features. The Group had made further investment in R&D of new technology to ensure future business momentum and identify and address the changing demands of customers, industry trends and competitiveness.

As explained in the "Financial Performance" section, the Group's gross margins of the new business is subject to extremely huge pressure as the Group has to sell smart phones at aggressive and competitive prices to HMD and the Group also faced tremendous pressure from absorbing the R&D cost, indirect labour cost and marketing expenses in distribution channel development. In light of the poor performance of the Group in the past two years and the difficulties ahead in 2019 and the need to maintain a healthy cash flow, the Group implemented a loss cutting initiative and a cost down exercise to cut its overheads and operating expenses in order to build a long-term sustainability in the highly competitive mobile phone market. The Group's partner, HMD which also recorded poor performance came to a strategic decision that HMD will not only seek for the Group's support but also contracts other ODMs to enhance its supply chain flexibility and cost and price competitiveness. As there was change to collaboration model between the Group and HMD, the Group decided to discontinue its distribution business and cut the headcounts and consequently terminates the customer and distributor agreements of distribution business to save costs. In 2019, the Group will continue to manufacture HMD's second and third generation/wave smart phone products until the end of the product lifecycle and design and manufacture Nokia-branded feature phone programs and smart phone programs of satisfactory margin and the Group expects the change in the collaboration model will gradually decrease the sales to HMD but at the same time it would steadily improve its gross margin and the sale drop to HMD can be partially offset by sale to the new U.S. internet company.

Besides the improvements and actions in relation to the Group's operating expenses, the first three generations of Nokia-branded smart phones have been introduced in the market for a period of time. When those generations of products of which performance in gross margin has been poor are approaching the end of their life cycle, the gross loss is expected to be lesser in the first half of 2019.

In addition, as mentioned in the "Investments" section, the Group has taken necessary actions to control future impact from the change in the total fair value of the Group's investment in listed companies. The Company has evaluated the possible alternatives to maximise the benefits (financial, operational and otherwise) from the Group's investment in Meitu. The Groups has disposed all of its holding in Meitu's ordinary shares in 2018 and thus the Company currently expects no substantial loss arising from the change in the total fair value of the Group's investments in other listed companies in 2019.

The mobile phone manufacturing business is facing various new challenges (both external and internal) which have not been encountered before. The saturation of the smart phone market has also exerted tremendous pressure (margin erosion) on the entire handset industry. The Group has been doing OEM and ODM and IDM for mobile phone manufacturers for years. The growth rate of China's smart phone market has been declining and China's smart phone market has continued its shrinking situation with shipment since the fourth quarter in 2017. On the other hand, the decline in the OEM industry is also driven by the trend of China's capacity transformation. The rise of China's OEM mainly benefited from the low labour costs, which have been difficult to sustain since 2014. China domestic labour costs have risen sharply yet the efficiency of assembly line workers has not increased correspondingly and the cost advantage of China is no longer comparable with other countries in Southeast Asia. On 21 January 2019, China released its annual GDP figures, along with a slew of other economic data for the final month of 2018. According to China's National Bureau of Statistics, the GDP growth was 6.6%, just slightly above the 6.5% target set last year, and the growth rate is the slowest pace in nearly 30 years. Economists further predicted the GDP growth might be worsen in recent years as Chinese consumer anxious about the weaker global economy and the ongoing U.S.-China trade war. In fact, Chinese government has already anticipated a weakening economic as China's political bureau, the Politburo met and called for the country to maintain a "six stability policy" — stable employment, stable finance, stable trade, stable foreign investment, stable investment, and stable expectations on 20 July 2018. On 13 December 2018, the Politburo met on the preparation of 2019 economic policy and re-emphasised the six-stability policy. In a longer term, China's goal is to get higher on the global value chain, since currently, the export-driven economic structure keeps the level of products with relatively low added values. It is a serious problem that only a fraction of the profit on countless products stays in the country because added value is low which is typical for the system assembly business. The model based on domestic demand works in a much more complex way than the mostly export-driven one. The recent trade war of China with the U.S. especially highlighted the need of changing the mix of China's GDP. China's traditional OEM and manufacturing industry is facing huge challenges and the support from the government is declining and the industry has to transform in order to survive and has to upgrade from an existing "world factory" to the "artificial intelligent leader" and doing automation is a must. That is the reason why the Company is introducing the "Industry 4.0" smart manufacturing paradigm to reduce manufacturing costs. But of course, it needs time to implement Industry 4.0 and the Group is now making effort on this.

Looking ahead, the Company understands the tremendous challenges in 2019. 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 Company's 2018 corporate governance report which forms part of the annual report incorporating this report of the directors.

Regarding key risks faced in 2019, please refer to the major risk items below.

Risks Pertaining to the Handset Business

As mentioned above, there is a year-on-year decline in handset shipment and the market is saturated. As a result, the general state of the global economy, trade war, protectionism, custom duty hikes, market conditions and consumer behaviour and the risk that our customers are not successful in marketing their products or that their products do not gain widespread commercial acceptance may have a significant impact on customers and the Group's operating results and financial conditions. To tackle this, the Group has to control BOM costs and manufacturing costs and improve gross margins performance and monitor impact of factors affecting business of customers and its financial health. For the Nokia-branded business which needs time and effort to secure its long-term sustainability, the Group has become selective when receiving orders from HMD.

Risk Associated with U.S.-China Trade War

Although the direct impact of tariff increase on smart phone supply chain is limited, the unpredictability of U.S. President Trump's future act adds to the uncertainty and will hurt market sentiment. Regarding smart phone supply chain, since the assembly of smart phones of both overseas brands and Chinese brands are mostly done by ODMs in China, the increased tariff will only be applied to the part exporting to the U.S., while all the other parts like component suppliers' shipping to domestic ODMs or ODMs' shipping to regions outside the U.S. will not be affected. While Chinese smart phone brands only have minimal shares in the U.S. market, this is under very small impact. Accordingly, the overall impact on smart phone supply chain is limited even if the tariff is increased. U.S. mobile phone market is dominated by mobile operators, and most Chinese smart phone brands so far have not yet built a relationship with the U.S. mobile operators and their shipment to the U.S. is minimal. The Group will continue monitoring the impact and devise counter measures if necessary.

Reliance on Key Customers

The Group's five largest customers, accounts for 86.8% of the Group's total revenue and has strong established relationships with these major customers. Please refer to section headed "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and our actions to manage such risk. The majority of the Group's trade receivables are from the key established customers whom the Group has strong established working relationships. The credit terms granted to them are in the range of 60 to 90 days and are in line with those granted to other customers. As part of the audit procedures, subsequent settlements of trade receivables after the year-end have been reviewed and are satisfactory, requiring no provision. As market is volatile, the Group will keep monitoring credit position of customers.

Reliance on Key Suppliers

Please refer to the "Key Relationships with Customers, Suppliers and Employees" section for the details of our assessment of the risk presented to the Group and how to mitigate such risk.

Foreign Exchange Risks

Please refer to the "Financial Performance" section for the details on how to mitigate such risks.

Cyber Risk Controls

Regarding cyber risk, the Group has in place an information security policy which provides adequate security controls and protection of the financial data and business information. IT department has published a handbook which requires employees to follow so that the cybersecurity risks can be managed and controlled across the organization (particular for the network control). Besides, IT department has a procedure and guideline in place enabling them to respond immediately when a cyber-attack is detected. For the network control, all the computer servers are located in a Local Network Area (Intranet) using redundant firewall design. Besides, there is a Global Security Operation Centre (GSOC) which helps manufacturing and functional units monitor their network to ensure any attack to the computer system can be detected immediately and IT department prepares a monthly report to report if any incidence of cyber-attack has been detected. In addition, IT department has a disaster recovery plan and procedure in place to ensure immediate and effective responses/actions can be initiated when there is an attack to minimise potential harmful impact/losses and operation can be restored rapidly to avoid any business interruption and enable continuing running of business operations of the Group.

On the basis of a preliminary review of the Group's latest unaudited management accounts and other information currently available, the Company expects that the Group is likely to record a consolidated net loss for the six-month period ending 30 June 2019 (the Group recorded a consolidated net loss of US$348,567,000 for the six-month period ended 30 June 2018), primarily because of various factors highlighted in the Company's profit warning announcement dated 2 November 2018 and announcement dated 22 February 2019 on additional inside information relating to last profit warning. The Company expects that the challenging conditions the Group has faced since late 2017 and into 2018 may continue into 2019. However, it also expects that operating expenses should reduce, and pressure on the Group's gross margins generally ought to ease, over the course of 2019, and for the time being, it expects that the Group's operating loss in the first half of 2019 will be reduced when compared year-on-year. At this stage, on the basis of a preliminary review of currently available information, the Company is unable to reasonably and meaningfully estimate the likely magnitude of such expected loss. The Company will make further announcement(s) in compliance with the Listing Rules and/or the SFO, as appropriate.

The Company's shareholders and potential investors should note that the Company is in the process of reviewing the Group's consolidated interim results for the six-month period ending 30 June 2019. The information in this report of the directors is the result of a preliminary assessment by the Company's management based on the Group's latest unaudited management accounts and other information currently available. That information is subject to possible adjustments following further internal review, and is not based on any figure(s) or information which has/have been reviewed by the Company's auditor or audit committee. The Group's 2019 unaudited consolidated interim results and other related details will be disclosed in the Company's 2019 interim results announcement, which is tentatively scheduled to be published in August 2019.

In the meantime, pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose in due course (which is expected to be in or about May 2019) certain unaudited consolidated financial information of the Group for the three months ending 31 March 2019, and simultaneously upon such disclosure in Taiwan, the Company will announce the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan.

The Company wishes to take this opportunity to reiterate that the Group's quarterly performance may fluctuate (possibly significantly) as a result of a number of factors. For example, performance over certain periods may vary as a result of a combination of changes in the macro-economic environment (e.g. intensifying trade wars and political conditions) and industry generally and related changes in consumer demands, seasonality of sales, factors relating to the supply chain (e.g. components costs, sourcing and shortage) and to inventory (e.g. accumulated inventory may take time to clear and may have to be written-off), and customers' credit risks, product launch or product recalibration strategies and possible cancellation or delay of customer orders or change of production quantities and certain customers' products having short product life time volume, market competitiveness and shifts in customers' demands and preferences (e.g. in-house manufacturing instead of outsourcing), changes in money markets (e.g. fluctuation of interest rates and foreign exchange rates) and capital market, sales and product mix changes, commodity price changes, technology advancement, and legal/ regulatory/tax/government policy changes. Other factors can also give rise to uncertainty. For example, the Group's financial exposure to market volatility (e.g. RMB and INR and other currency volatility, stock market volatility) can result in gains or losses; likewise with respect to any future impairments of property, plant and equipment, goodwill or intangible assets and equity investments, and the timing of dispositions of equity investments and resulting profits/losses, and the performance of the Group's associates and its share of those associates' profits/losses, renewing or meeting the conditions of any tax incentives and credits, and the timing of receipt of incentive income, can all (individually and collectively) affect quarterly performance.

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

Environmental Policies and Performance

The Group's business strategy is firmly grounded on values of sustainable development as awareness of environmental and social issues arise on a global agenda. A sound governance system is essential to drive sustainable initiatives whilst taking into account the interests of all key stakeholders, internal and external, namely employees, customers, suppliers, the community, shareholders/investors and non-governmental organisations.

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 ("SER Code"), which sets out the Group's standards relating to ethics, labour rights, health and safety, environment, management system, restrictions on the use of conflict minerals, anti-corruption and anti-slavery.

Amongst these, 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, greenhouse gas ("GHG") 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.

In this connection, the Group actively monitors the following principal areas: energy management and GHG emission reduction, air pollution control, water treatment and utilisation and waste management, to ensure that the Group's operations comply with the SER Code towards achieving environmental sustainability. The Group has set up specialised divisions to study the environmental requirements of regulators, customers, industry and other key stakeholders, including compliance with the "Law of the People's Republic of China on Product Quality", the European Union's "Restriction on Hazardous Substances Directive" (RoHS) and the European Union's Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation, restrictions on the use of conflict minerals as well as HF (Halogen-Free) certifications and GHG emission reduction expectations. The results of these efforts are translated into actionable internal measures that can be integrated and applied within the Group's operations. The Group has established specific SER-related policies and guidelines which are strictly applied in its supply chain, including procurement process, production process and delivery process.

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 GHG emission reduction technologies, the Group actively promotes energy efficiency management and renewable energy utilisation and hence corresponding GHG emission reduction. The Group's suppliers are required to adhere to the Group's GHG emission reduction policies and establish systems, at the organisational and product levels, to monitor GHG emissions.

The Group closely controls and monitors any air pollutants which may be generated during the manufacturing and transportation processes. The functioning of air pollutant emission systems is also under routine examination. 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. Wastewater is closely monitored and controlled before discharge, and the functioning of wastewater handling systems is also under routine examination. 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. All relevant waste is treated and disposed of in compliance with relevant environmental laws and regulations. The Group works to maximise waste recycling, and leverages design and technology to transform waste into usable resource inputs.

As a result of the Group's efforts, all of the Group's manufacturing plants in the PRC, India and Vietnam have attained the ISO14001 environmental management system. During the current period, major technology upgrades (including the introduction of a distributed photovoltaic power generation with the capacity of 5.7 MWp (Mega Watt peak, a solar power measurement unit)) have been made in certain production facilities at Langfang, the PRC, resulting in a year-on-year reduction of energy consumption of 12.61 TJ (Terajoule, an energy measurement unit equivalent to 10^{12} joules), and the Group's emission of GHG and production of total hazardous and non-hazardous wastes have been kept at low levels.

RESERVES

Movements in reserves of the Group during the current period are set out on page 67.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution amounted to approximately US$1,819,533,000.

SHARE CAPITAL

Details of the movements in the share capital during the current period are set out in note 28 to the consolidated financial statements.

A total of 120,594,615 ordinary shares of the Company were allotted and issued at their par value of US$0.04 per share on 15 November 2018 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 current period.

FINANCIAL SUMMARY

A financial summary of the results of the Group for the last five financial years is set out on page 149.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group during the current period are set out in notes 13 and 14 to the consolidated financial statements, respectively.

BANK LOANS

Details of bank loans are set out in note 27 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

CHIH Yu Yang
WANG Chien Ho
KUO Wen-Yi (appointed on 29 June 2018)
HUANG Chin Hsien (resigned on 29 June 2018)
YU Mingjen (resigned on 4 May 2018)

Non-executive Director

LUO Zhongsheng (resigned on 2 November 2018)

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih

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. For details, please refer to the "Independent Non-executive Directors" section of the Company's 2018 corporate governance report, which forms part of the annual report incorporating this report of the directors.

Pursuant to the approval of the Board on 29 June 2018, Dr. KUO Wen-Yi was appointed as an executive director of the Company for a term commencing from 29 June 2018 and ending on 28 June 2021 (both dates inclusive), subject to retirement and re-election under the articles of association of the Company (the "Articles"). He has entered into a director's service contract with the Company and is entitled to an annual emolument package of US$500,000 and a discretionary bonus to be determined by the Board from time to time with reference to the Company's performance, his duties and responsibilities with the Company, his contribution to the Company and the prevailing market practice. Dr. Kuo was also appointed as a member of the corporate governance committee of the Company with effect from 29 June 2018 on which Mr. HUANG Chin Hsien ceased to act in such capacity.

Mr. YU Mingjen and Mr. HUANG Chin Hsien, former executive directors of the Company, and Dr. LUO Zhongsheng, a former non-executive director of the Company, resigned with effect from 4 May 2018, 29 June 2018 and 2 November 2018, respectively, due to their desire to spend more time with their families. All of them confirmed that they had no disagreement with the Board and there was no other matter relating to their resignation that needed to be brought to the attention of the shareholders of the Company.

For more details, please refer to the "Other Information — Directors" section of the Company's 2018 interim report.

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

Pursuant to Article 95 of the Articles, Dr. KUO Wen-Yi, who was appointed as an executive director with effect from 29 June 2018 after the last general meeting of the Company, will hold office until the next general meeting and, being eligible, he will offer himself for re-election at the Company's forthcoming annual general meeting.

Pursuant to the approval of the Board on 15 November 2018, the Company granted 3,251,902 shares to Mr. CHIH Yu Yang under the Existing Share Scheme.

For details of the directors' remuneration and expense allowances for the current period, please refer to note 8 to the consolidated financial statements.

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 (Chapter 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 current period.

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/her as a director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgement is given in his/her favour, or in which he/she is acquitted; and (ii) subject to the Companies Law (2018 Revision), Chapter 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 current period 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 2018, 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
CHIH Yu Yang	The Company	Personal Interest	20,731,661	0.2524%
	Hon Hai	Personal Interest	1,292,594	0.0093%
	CMCS *(Note)*	Personal Interest	1,000	0.0007%
KUO Wen-Yi	The Company	Interest of Spouse	700,000	0.0085%
	Hon Hai	Personal Interest	2,310	0.00002%
		Interest of Spouse	17	0.0000001%

Note: The Company indirectly, through its wholly-owned subsidiaries, holds approximately 87.06% 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 2018, 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 2018, 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 *(Note 1)*	Beneficial owner	5,081,034,525	61.86%
Hon Hai *(Notes 1 & 2)*	Interest of a controlled corporation	5,081,034,525	61.86%

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. CHIH Yu Yang, the acting chairman and an executive director of the Company, is a director of certain subsidiaries of Hon Hai. 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 2018, 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 paid/payable to the four members of the senior management of the Company (whose biographical details are disclosed in "Profile of Directors and Senior Management" set forth in the annual report incorporating this report of the directors) during the current period were within the following bands:

	Number of senior management
HK$1,500,001 to HK$2,000,000	1
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
	4

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 current period are summarised as follows:

For more details, please refer to the Company's announcements relating to continuing connected transactions dated 11 August 2016, 13 April 2017, 11 August 2017, 1 November 2017 and 8 March 2018, respectively, circulars relating to continuing connected transactions dated 1 September 2016, 8 May 2017 and 30 August 2017, respectively, and announcements dated 21 September 2016, 25 May 2017 and 21 September 2017, respectively, relating to poll results of the extraordinary general meetings.

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 Co., Ltd. for identification purposes only) (both being associates of Hon Hai) on 19 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016 and 31 July 2017) (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 2019 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 and other consumer electronic products as approved by the Group's customer, at the price agreed between the supplier and the Group's customer; if not, at a price to be determined by reference to the average market price; or

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Purchase Agreement (the "Purchase Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Purchase Transaction for the three years ending 31 December 2019 at US$2,260 million for 2017, US$2,482 million for 2018 and US$2,725 million for 2019.

Hon Hai is the leading player in the computer, communication and consumer electronics ("3C") manufacturing services industries. 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 consumer electronic products, in particular handsets. The Company believes that it is an important competitive advantage of the Group 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.

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 among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013 and 11 August 2016) (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 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Product Sales Agreement (the "Product Sales Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Product Sales Transaction for the three years ending 31 December 2019 at US$2,147 million for 2017, US$2,357 million for 2018 and US$2,588 million for 2019.

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.

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 the respective supplemental agreements dated 17 October 2013 and 11 August 2016) 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 2019 upon and subject to the terms and conditions set out therein. The rental payable by the Group under the transactions contemplated under the Non-real Property Lease Expense Agreement (the "Non-real Property Lease Expense Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar properties in the market. If the average market rental is not available, the rental payable under the Non-real Property Lease Expense Transaction shall be determined on a "cost plus" basis. If both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Non-real Property Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Non-real Property Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Non-real Property Lease Expense Transaction for the three years ending 31 December 2019 at US$19 million for 2017, US$20 million for 2018 and US$21 million for 2019.

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.

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 former subsidiary of Hon Hai, which had been dissolved on 30 March 2011) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on 24 October 2007 (as amended by the respective supplemental agreements between the Company and Hon Hai dated 19 November 2010, 17 October 2013 and 11 August 2016) (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 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement (the "Consolidated Services and Sub-contracting Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2019 at US$333 million for 2017, US$356 million for 2018 and US$381 million for 2019.

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.

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, 17 October 2013 and 11 August 2016) 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 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Equipment Purchase Agreement (the "Equipment Purchase Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Purchase Transaction for the three years ending 31 December 2019 at US$163 million for 2017, US$175 million for 2018 and US$187 million for 2019.

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.

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, 17 October 2013 and 11 August 2016) 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 2019 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 ending 31 December 2019 at US$114 million for 2017, US$121 million for 2018 and US$130 million for 2019.

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.

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, 17 October 2013 and 11 August 2016) 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 2019 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 ending 31 December 2019 at US$23 million for 2017, US$24 million for 2018 and US$26 million for 2019.

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.

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, 17 October 2013 and 11 August 2016) 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 2019 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 ending 31 December 2019 at US$21 million for 2017, US$22 million for 2018 and US$24 million for 2019.

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.

Lease Expense Transaction

Pursuant to the framework lease agreement dated 18 January 2005 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) ("FTH") and Hon Hai (as amended by the supplemental agreement between FTH and Hon Hai dated 12 January 2006 and the respective supplemental agreements among the Company, FTH and Hon Hai dated 20 September 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013 and 11 August 2016) (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 2019 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, and the Company had set the then existing annual caps for the Lease Expense Transaction for the three years ending 31 December 2019.

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 suppliers of materials and components for the manufacture of handsets as approved by the customers of the Group.

Anticipating renewal of certain specific lease agreements at terms in accordance with the Lease Expense Agreement and taking into account the then prevailing market rentals and the Group's additional requirement of manufacturing facilities as estimated based on the Group's business and production plan, the Company envisaged that the then existing annual caps for the Lease Expense Transaction for the two years ending 31 December 2018 and 2019 might not be sufficient. Therefore, on 8 March 2018, the Company revised the then existing annual caps for the Lease Expense Transaction for the two years ending 31 December 2019 to US$8.059 million for 2018 and US$10.097 million for 2019.

The revised annual caps for the Lease Expense Transaction for the two years ending 31 December 2019 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:

(a) the then existing specific lease agreements entered into under the Lease Expense Agreement;

(b) the renewal of certain specific lease agreements at terms in accordance with the Lease Expense Agreement and taking into account the then prevailing market rentals;

(c) the Group's additional requirement of manufacturing facilities as estimated based on the Group's business and production plan; and

(d) an additional buffer of 5%, to cater for any increase in the transaction which is unexpected but not substantial.

Based on the maximum amount of the revised annual caps for the Lease Expense Transaction for the two years ending 31 December 2019, the Lease Expense Transaction together with such revised annual caps were exempt from the Listing Rules requirements in respect of the circular (including independent financial advice) and the approval of the Company's shareholders other than Hon Hai and its associates (as defined in the Listing Rules). On 8 March 2018, the Company published the relevant announcement.

Lease Income Transaction

Pursuant to the framework lease agreement dated 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013 and 11 August 2016) between the Company and Hon Hai (the "Lease Income Agreement"), the Group has leased to the Hon Hai Group premises owned by the Group as agreed between the parties from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

The rental payable by the Hon Hai Group under the Lease Income 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 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 Income 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 transactions contemplated under the Lease Income Agreement (the "Lease Income Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Lease Income Transaction for the three years ending 31 December 2019 at US$3.8 million for 2017, US$4.999 million for 2018 and US$6.576 million for 2019.

The Group has built its own manufacturing and other premises and may have surplus space from time to time. The Company considers it in its best interests to lease out such surplus space and generate additional income for the Group at prices comparable to the market and/or above the costs attributable to the leased premises pursuant to the relevant agreement in respect of the Lease Income Transaction.

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 current period is as follows:

Continuing connected transaction	**Paying Group**	**Total consideration for the year ended 31 December 2018** (US$'000)
Purchase Transaction	Group	1,030,816
Product Sales Transaction	Hon Hai Group	1,207,353
Non-real Property Lease Expense Transaction	Group	12,791
Consolidated Services and Sub-contracting Expense Transaction	Group	240,877
Equipment Purchase Transaction	Group	64,727
Sub-contracting Income Transaction	Hon Hai Group	26,180
General Services Expense Transaction	Group	19,524
Equipment Sale Transaction	Hon Hai Group	1,903
Lease Expense Transaction	Group	6,047
Lease Income Transaction	Hon Hai Group	3,782

Annual Review

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor 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 auditor was 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 auditor has issued its unqualified letter containing its findings and conclusions in respect of such continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. The auditor has reported its findings and conclusions to the Board. A copy of the auditor's 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 purpose of assisting the Board with the Group's overall policies on 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 current period 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 have 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 the "Accountability and Audit" section set out in the Company's 2018 corporate governance report, which forms part of the annual report incorporating this report of the directors.

The related party transactions referred to in note 39 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 and potential entitlements pursuant to Hon Hai's articles of incorporation (pursuant to which, among other things, Hon Hai shares may be distributed as part of compensation to employees, including the Company's executive directors, upon and subject to the terms and conditions set out therein), at no time during the current period was the Company, any of its subsidiaries, its holding company or any subsidiaries 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 9.22% 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 41 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 (being a professional institution) 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/her 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 18 May 2018, 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 161,869,605 shares.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 19 August 2015, the Company offered 114,717,017 ordinary shares to a total of 2,838 beneficiaries pursuant to the Existing Share Scheme, of which 6,175,743 ordinary shares were granted without lock-up periods, while the remaining ordinary shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer of the shares. 104,230,955 ordinary shares were issued on 19 August 2015 and 10,486,062 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in August 2015.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 1 November 2016, the Company offered 101,168,760 ordinary shares to a total of 1,807 beneficiaries pursuant to the Existing Share Scheme, which shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer 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 Existing Share Scheme from the market in November 2016.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 22 November 2017, the Company offered 118,595,820 ordinary shares to a total of 869 beneficiaries pursuant to the Existing Share Scheme, of which 114,343,918 ordinary shares were granted without lock-up periods, while the remaining ordinary shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer of the shares. 106,053,805 ordinary shares were issued on 22 November 2017 and 12,542,015 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2017.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 28 November 2017, the Company offered 2,171,795 ordinary shares to a total of 13 beneficiaries pursuant to the Existing Share Scheme without lock-up periods. No consideration was payable on acceptance of offer of the shares. 2,171,795 ordinary shares were issued on 28 November 2017.

Pursuant to the approval of the Board on 15 November 2018, the Company offered 146,963,583 ordinary shares to a total of 191 beneficiaries pursuant to the Existing Share Scheme, of which 143,711,681 ordinary shares were granted without lock-up periods, while the remaining ordinary shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer of the shares. 120,594,615 ordinary shares were issued on 15 November 2018 and 26,368,968 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2018.

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 6 March 2019, the total issued share capital of the Company comprised 8,214,074,906 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 164,281,498 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$0.98 per share as at 6 March 2019 and the Scheme Mandate being exercised in full, the aggregate market value of the 164,281,498 shares to be allotted and issued pursuant thereto would be approximately HK$160,995,868. 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 41 to the consolidated financial statements for more details.

MAJOR CUSTOMERS AND SUPPLIERS

During the current period, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 86.8% of the Group's total revenue from sales of goods and rendering of services for the current period and revenue from sales of goods and rendering of services to the Group's largest customer amounted to approximately 30.59%. Purchases from the Group's five largest suppliers accounted for approximately 65.66% of the Group's total purchases for the current period and purchases from the Group's largest supplier amounted to approximately 27.68%.

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.

For related matters, please refer to the "Key Relationships with Customers, Suppliers and Employees" section above.

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 current period.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of the annual report incorporating 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 current period.

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 (2018 Revision), Chapter 22 of the Cayman Islands laws (as amended from time to time).

PENSION SCHEMES

Details of the Group's pension scheme and the basis of calculation are set out in note 40 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 enterprise risk management systems, nominate and monitor external auditor 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 current period and the annual report incorporating this report of the directors 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 current period, in compliance with the code provisions set out in the CG Code.

For more details, please refer to the Company's 2018 corporate governance report, which forms part of the annual report incorporating this report of the directors.

AUDITOR

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

On behalf of the Board

CHIH Yu Yang
Acting Chairman

6 March 2019

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 64 to 148, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 matter	How our audit addressed the key audit matter
Impairment assessment of the goodwill	
We identified the impairment assessment of the goodwill as disclosed in note 16 to the consolidated financial statements as a key audit matter due to its complexity and the judgement exercised by the Group's management. As disclosed in note 4 to the consolidated financial statements, determining an estimation of the recoverable amount of the cash-generating unit (the "CGU") to which the goodwill has been allocated, the Group engages an independent professional valuer to perform such valuation. The valuation is determined based on the cash flow projection for 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 historical financial performance of the CGU, the relevant industry growth forecasts and 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, impairment loss for goodwill amounting to US$79,435,000 was recognised for the year ended 31 December 2018.	Our procedures in relation to assessing the appropriateness of the impairment assessment of the goodwill included: • Understanding the Group's estimation of the recoverable amount of the CGU, including the valuation model adopted, key assumptions used and the involvement of independent valuer appointed by the Group; • Evaluating the appropriateness of the model used to calculate the recoverable amount; • 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; • Evaluating the historical accuracy of the financial budgets prepared by the management by comparing the historical financial budgets with the actual; and • Engaging our valuation expert to evaluate the appropriateness of the valuation model adopted, discount rate and terminal growth rate used.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of interests in Mango International Group Limited ("Mango"), an associate of the Group, and fair value measurement of investment in convertible notes issued by Mango	
We identified the impairment assessment of interests in Mango and fair value measurement of investment in convertible notes issued by Mango as a key audit matter due to its significance of the balance to the consolidated statement of financial position as a whole and the involvement of estimation uncertainty over the assumptions. As explained in note 4 to the consolidated financial statements, in determining the impairment loss of the interests in Mango, the Group engaged an independent professional valuer to estimate its share of the present value of the estimated future cash flows expected to be generated from Mango, including expected dividend income from Mango and the proceeds from the ultimate disposal of the investment. The Group also takes into consideration any potential investments by market investors of the shares of Mango, the actual performance of Mango during the current year and business plan of Mango approved by the management of Mango for the foreseeable future. In performing the fair value measurement of convertible notes, it requires the assessment of the amounts that the Group would receive from the convertible notes, for which, the directors of the Company considered Mango's financial performance, its ability to continue as a going concern and assessed Mango's repayment capacity, such as its ability to raise additional funding. After making the above assessments, an impairment loss of US$77,190,000 for the interests in Mango and a fair value loss of US$44,806,000 for the convertible notes were recognised for the year ended 31 December 2018.	Our procedures in relation to evaluating the appropriateness of the management's impairment assessment of the interests in Mango and fair value measurement of investment in convertible notes issued by Mango included: • Understanding how the Group's management performs the impairment assessment of the interests in Mango and determines the fair value of convertible notes; • Understanding the Group's estimation of its share of the present value of the estimated future cash flows expected to be generated from Mango, including expected dividend income from Mango and the proceeds from the ultimate disposal of the investment and the involvement of independent valuer appointed by the Group; • Engaging the component auditor to audit the financial information of Mango for the year ended 31 December 2018; • Communicating with the component auditor of Mango to understand their assessment of Mango's ability to continue as a going concern and raise additional funding in order to assess its repayment capacity; and • Engaging our valuation expert to evaluate the appropriateness of the valuation models adopted and the key assumptions used.

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 issued by IASB 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.

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

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.

- 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.

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

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
6 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018 US$'000**	2017 US$'000
Revenue	*5*	**14,929,903**	12,080,110
Cost of sales		**(15,013,909)**	(11,949,780)
Gross (loss) profit		**(84,006)**	130,330
Other income, gains and losses	*6*	**91,517**	217,250
Impairment loss recognised for available-for-sale investments	*18*	**–**	(202,503)
Impairment loss recognised for goodwill	*16*	**(79,435)**	–
Impairment loss recognised for interests in associates	*21*	**(84,820)**	–
Fair value loss of convertible notes	*19*	**(44,806)**	–
Selling expenses		**(123,346)**	(84,318)
General and administrative expenses		**(275,356)**	(374,548)
Research and development expenses		**(214,726)**	(160,829)
Interest expense on bank borrowings		**(27,705)**	(11,232)
Share of profit (loss) of associates		**3,085**	(8,694)
Share of loss of joint ventures		**(503)**	(1,014)
Loss before tax	*7*	**(840,101)**	(495,558)
Income tax expense	*10*	**(17,014)**	(29,836)
Loss for the year		**(857,115)**	(525,394)
Other comprehensive (expenses) income:			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(32,417)**	–
Remeasurement of defined benefit pension plans		**304**	(104)
		(32,113)	(104)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(156,256)**	173,055
Fair value gain on available-for-sale investments		**–**	53,234
Share of translation reserve of associates		**2,439**	9,646
Share of translation reserve of joint ventures		**94**	267
Release upon partial disposal of available-for-sale investments		**–**	(14,279)
		(153,723)	221,923
Other comprehensive (expense) income for the year, net of income tax		**(185,836)**	221,819
Total comprehensive expense for the year		**(1,042,951)**	(303,575)
(Loss) profit for the year attributable to:			
Owners of the Company		**(857,121)**	(525,487)
Non-controlling interests		**6**	93
		(857,115)	(525,394)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(1,042,280)**	(304,062)
Non-controlling interests		**(671)**	487
		(1,042,951)	(303,575)
Loss per share	*12*		
Basic		**(US10.57 cents)**	(US6.61 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	**2018 US$'000**	2017 US$'000
Non-current assets			
Property, plant and equipment	*13*	**1,002,393**	974,236
Investment properties	*14*	**4,747**	6,149
Prepaid lease payments	*15*	**47,809**	51,625
Goodwill	*16*	**–**	79,435
Intangible assets	*17*	**–**	10,158
Available-for-sale investments	*18*	**–**	190,187
Financial assets at fair value through profit or loss	*19*		
– Equity instruments		**13,082**	–
– Convertible notes		**–**	60,000
Financial assets at fair value through other comprehensive income	*20*		
– Equity instruments		**119,232**	–
Interests in associates	*21*	**20,972**	100,348
Interests in joint ventures	*22*	**2,390**	2,799
Deferred tax assets	*23*	**20,300**	43,932
Deposit for acquisition of prepaid lease payments		**27,785**	29,177
		1,258,710	1,548,046
Current assets			
Inventories	*24*	**1,400,388**	1,024,611
Trade and other receivables	*25*	**4,305,578**	3,776,603
Financial assets at fair value through profit or loss			
– Short-term investments	*19*	**454,421**	426,554
Bank deposits	*31*	**66,697**	31,964
Bank balances and cash	*31*	**1,418,569**	1,979,905
		7,645,653	7,239,637
Current liabilities			
Trade and other payables	*26*	**5,091,425**	4,644,463
Contract liabilities		**20,063**	–
Bank borrowings	*27*	**1,427,217**	712,600
Provision	*32*	**102,719**	96,896
Tax payable		**81,373**	125,036
		6,722,797	5,578,995
Net current assets		**922,856**	1,660,642
Total assets less current liabilities		**2,181,566**	3,208,688

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	**2018 US$'000**	2017 US$'000
Capital and reserves			
Share capital	*28*	**328,563**	323,739
Reserves	*29*	**1,815,779**	2,849,370
Equity attributable to owners of the Company		**2,144,342**	3,173,109
Non-controlling interests		**5,939**	6,610
Total equity		**2,150,281**	3,179,719
Non-current liabilities			
Deferred tax liabilities	*23*	**10,441**	5,362
Deferred income	*33*	**20,844**	23,607
		31,285	28,969
		2,181,566	3,208,688

The consolidated financial statements on pages 64 to 148 were approved and authorised for issue by the board of directors on 6 March 2019 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 2018

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 *(note 29)*	Revaluation reserve US$'000 *(note b)*	Other reserve US$'000 *(note a)*	Legal reserve US$'000 *(note 29)*	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 2017	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
(Loss) profit for the year	–	–	–	–	–	–	–	–	(525,487)	(525,487)	93	(525,394)
Other comprehensive income (expense) for the year	–	–	–	38,955	(104)	–	182,574	–	–	221,425	394	221,819
Total comprehensive income (expense) for the year	–	–	–	38,955	(104)	–	182,574	–	(525,487)	(304,062)	487	(303,575)
Issue of ordinary shares under Share Scheme	4,329	28,672	–	–	–	–	–	(33,001)	–	–	–	–
Payment made for equity-settled share-based payments *(note 41)*	–	–	–	–	–	–	–	(3,855)	–	(3,855)	–	(3,855)
Recognition of equity-settled share-based payments *(note 41)*	–	–	–	–	–	–	–	58,393	–	58,393	–	58,393
Dividends recognised as distribution *(note 11)*	–	–	–	–	–	–	–	–	(142,000)	(142,000)	–	(142,000)
Profit appropriations	–	–	–	–	–	229	–	–	(229)	–	–	–
Balance at 31 December 2017	**323,739**	**1,195,623**	**15,514**	**86,388**	**(1,302)**	**168,899**	**179,622**	**–**	**1,204,626**	**3,173,109**	**6,610**	**3,179,719**
Adjustments *(note 2)*	**–**	**–**	**–**	**(102,497)**	**–**	**–**	**–**	**–**	**103,402**	**905**	**–**	**905**
Balance at 1 January 2018 (restated)	**323,739**	**1,195,623**	**15,514**	**(16,109)**	**(1,302)**	**168,899**	**179,622**	**–**	**1,308,028**	**3,174,014**	**6,610**	**3,180,624**
(Loss) profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(857,121)**	**(857,121)**	**6**	**(857,115)**
Other comprehensive (expense) income for the year	**–**	**–**	**–**	**(32,417)**	**304**	**–**	**(153,046)**	**–**	**–**	**(185,159)**	**(677)**	**(185,836)**
Total comprehensive expense for the year	**–**	**–**	**–**	**(32,417)**	**304**	**–**	**(153,046)**	**–**	**(857,121)**	**(1,042,280)**	**(671)**	**(1,042,951)**
Issue of ordinary shares under Share Scheme	**4,824**	**7,784**	**–**	**–**	**–**	**–**	**–**	**(12,608)**	**–**	**–**	**–**	**–**
Payment made for equity-settled share-based payments *(note 41)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,024)**	**–**	**(3,024)**	**–**	**(3,024)**
Recognition of equity-settled share-based payments *(note 41)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,632**	**–**	**15,632**	**–**	**15,632**
Balance at 31 December 2018	**328,563**	**1,203,407**	**15,514**	**(48,526)**	**(998)**	**168,899**	**26,576**	**–**	**450,907**	**2,144,342**	**5,939**	**2,150,281**

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 equity investments classified as financial assets at fair value through other comprehensive income (2017: the listed equity investments classified as available-for-sale investments).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 US$'000	2017 US$'000
OPERATING ACTIVITIES		
Loss before tax	**(840,101)**	(495,558)
Adjustments for:		
Impairment loss recognised for goodwill	**79,435**	–
Impairment loss recognised for available-for-sale investments	**–**	202,503
Depreciation and amortisation	**179,473**	171,342
Share-based payment expenses	**15,632**	58,393
Write down of inventories	**132,714**	69,012
Loss on disposal and write-off of property, plant and equipment	**21,341**	29,054
Interest expense	**27,705**	11,232
Share of (profit) loss of associates	**(3,085)**	8,694
Share of loss of joint ventures	**503**	1,014
Impairment loss recognised in respect of trade receivables	**949**	117
Impairment loss recognised for property, plant and equipment	**6,107**	–
Impairment loss recognised for interests in associates	**84,820**	–
Fair value loss of convertible notes	**44,806**	–
Gain on deemed disposal of interests in associates	**–**	(865)
Deferred income recognised to income	**(1,696)**	(1,665)
Gain on disposal of available-for-sale investments	**–**	(15,468)
Gain from changes in fair value of financial assets designated as fair value through profit or loss	**–**	(19,209)
Net gain arising on short-term investments at fair value through profit or loss	**(19,309)**	–
Net loss arising on equity instruments at fair value through profit or loss	**70,687**	–
Interest income	**(35,035)**	(38,665)
Operating cash flows before movements in working capital	**(235,054)**	(20,069)
Increase in inventories	**(564,790)**	(689,455)
Increase in trade and other receivables	**(803,070)**	(983,720)
Increase in trade and other payables	**829,008**	1,530,250
Decrease in contract liabilities	**(45,334)**	–
Increase in provision	**6,377**	74,702
Cash used in operations	**(812,863)**	(88,292)
Income taxes paid, net	**(33,212)**	(65,924)
Interest received	**34,969**	45,314
Payments made for share-based payment expenses	**(3,024)**	(3,855)
NET CASH USED IN OPERATING ACTIVITIES	**(814,130)**	(112,757)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018	2017
	US$'000	US$'000
INVESTING ACTIVITIES		
Purchase of short-term investments	**(3,086,818)**	(3,074,403)
Purchase of property, plant and equipment	**(276,993)**	(219,548)
Purchase of equity instruments at fair value through other comprehensive income	**(68,017)**	–
(Placement) withdrawal of bank deposits for investing purpose	**(36,984)**	130,663
Proceeds on settlements of short-term investments	**3,056,155**	3,636,586
Proceeds from disposal of equity instruments at fair value through profit or loss	**23,504**	–
Proceeds on disposal of property, plant and equipment	**10,076**	9,333
Dividend income from an associate	**80**	–
Purchase of available-for-sale investments	**–**	(3,998)
Acquisition of investments in associates	**–**	(1,341)
Proceeds from disposal of available-for-sale investments	**–**	29,074
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(378,997)**	506,366
FINANCING ACTIVITIES		
Bank borrowings raised	**6,300,402**	1,508,048
Bank borrowings repaid	**(5,570,776)**	(1,214,825)
Interest paid	**(26,159)**	(9,375)
Dividends paid	**–**	(142,000)
NET CASH FROM FINANCING ACTIVITIES	**703,467**	141,848
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(489,660)**	535,457
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,979,905**	1,373,550
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(71,676)**	70,898
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	**1,418,569**	1,979,905

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 wide range of manufacturing services, including ancillary logistics and distribution services, to its customers in connection with the production and distribution of handsets. The principal activities of its principal subsidiaries are set out in note 42.

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")

New and amendments to IFRSs that are mandatorily effective for the current year

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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)*

IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the manufacturing services (including sales of goods, delivery service and processing service) and distribution income to its customers in connection with the production and distribution of handsets.

Information about the Group's performance obligations and accounting policies resulting from application of IFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of IFRS 15

There was no material impact of transition to IFRS 15 on retained profits at 1 January 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

Impacts on liabilities as at 1 January 2018

	Notes	**Carrying amount previously reported at 31 December 2017** US$'000 (audited)	**Impacts of adopting IFRS 15** US$'000	**Carrying amount under IFRS 15 at 1 January 2018** US$'000 (unaudited)
Trade and other payables	*a, b*	(4,644,463)	84,517	(4,559,946)
Contract liabilities	*a, b*	–	(84,517)	(84,517)

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

IFRS 15 "Revenue from Contracts with Customers" *(Continued)*

Summary of effects arising from initial application of IFRS 15 *(Continued)*

Impacts on liabilities as at 1 January 2018 (Continued)

Notes:

(a) As at 1 January 2018, advances from customers of US$65,397,000 in respect of manufacturing and distribution contracts previously included in trade and other payables were reclassified to contract liabilities as the Group has obligation to transfer goods or services to its customers for which the Group has received consideration from the customer.

(b) As at 1 January 2018, deferred consideration of US$19,120,000 in relation to the investment in convertible notes of Mango (as defined in note 19) previously included in trade and other payables were reclassified to contract liabilities as the Group has obligation to transfer goods to Mango.

There was no material impact of applying IFRS 15 on the Group's consolidated statement of profit or loss and other comprehensive income for the current year. The following tables summarise the impact of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the year ended for each of the line items affected. Line items that were not affected by the changes have not been included.

Impacts on liabilities as at 31 December 2018

	As reported	Adjustments	Amounts without application of IFRS 15
	US$'000	US$'000	US$'000
		(unaudited)	(unaudited)
Trade and other payables	**(5,091,425)**	**(20,063)**	**(5,111,488)**
Contract liabilities	**(20,063)**	**20,063**	**–**

Impacts on the consolidated statement of cash flows for the year ended 31 December 2018

	As reported	Adjustments	Amounts without application of IFRS 15
	US$'000	US$'000	US$'000
		(unaudited)	(unaudited)
Increase in the trade and other payable	**829,008**	**(45,334)**	**783,674**
Decrease in contract liabilities	**(45,334)**	**45,334**	**–**

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

IFRS 9 "Financial Instruments"

In the current year, the Group has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investments US$'000	Financial assets* designated at FVTPL^ US$'000	Financial assets at FVTPL^ required by IFRS 9 US$'000	Equity instruments at FVTOCI^ US$'000	Amortised cost (previously classified as loans and receivables) US$'000	Revaluation reserve US$'000	Retained profits US$'000
Closing balance at 31 December 2017 (audited) – IAS 39		190,187	486,554	–	–	5,591,980	86,388	1,204,626
Effect arising from initial application of IFRS 9:								
Reclassification								
From available-for-sale investments	*a*	(190,187)	–	107,273	82,914	–	(103,402)	103,402
From financial assets designated at FVTPL	*b*	–	(486,554)	486,554	–	–	–	–
Remeasurement								
From AFS at cost less impairment to financial assets at FVTOCI	*a*	–	–	–	905	–	905	–
Opening balance at 1 January 2018 (unaudited)		–	–	593,827	83,819	5,591,980	(16,109)	1,308,028

* Amounts represent convertible notes and short-term investments.
^ As defined in note a.

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

IFRS 9 "Financial Instruments" *(Continued)*

Summary of effects arising from initial application of IFRS 9 *(Continued)*

Notes:

(a) *Available-for-sale investments ("AFS")*

From AFS equity investments to fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of certain equity investments previously classified as available-for-sale investments, of which US$73,334,000 related to unquoted equity investments previously measured at cost less impairment and US$9,580,000 related to listed equity investments previously measured at fair value under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. This results in US$82,914,000 included in AFS investments was reclassified to equity instruments at FVTOCI at the date of initial application of IFRS 9. The fair value gain of US$905,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and revaluation reserve as at 1 January 2018. The fair value gains of US$4,705,000 relating to those listed equity investments previously carried at fair value continued to accumulate in revaluation reserve. In addition, impairment losses previously recognised of US$26,593,000 were transferred from retained profits to revaluation reserve as at 1 January 2018.

From AFS equity investments to fair value through profit or loss ("FVTPL")

At the date of initial application of IFRS 9, the Group's remaining equity investments of US$107,273,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gains of US$76,809,000 relating to those investments previously carried at fair value were transferred from revaluation reserve to retained profits.

(b) *From financial assets designated at FVTPL to financial assets at FVTPL*

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the convertible notes and short-term investments as these financial assets do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding and so are measured at FVTPL under IFRS 9. As a result, the fair value of the convertible notes and short-term investments of US$60,000,000 and US$426,554,000, respectively, were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

(c) *Impairment under ECL model*

The Group has applied the IFRS 9 simplified approach to measure ECL using lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor.

Loss allowances for other financial assets at amortised cost mainly comprise of bank deposits and bank balances, and are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the directors of the Company consider that the amount is not material.

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 16	Leases[1]
IFRS 17	Insurance Contracts[2]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[5]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[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 1 and IAS 8	Definition of Material[4]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
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 2020.
5 Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

Except as described below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

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. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

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

Other than certain requirements which are also applicable to lessor, 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 2018, the Group has non-cancellable operating lease commitments of approximately US$23,752,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of US$556,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement" contains a lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

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 and by the Hong Kong Companies Ordinance.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 OCI 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, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 OCI of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and OCI are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When an objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in OCI 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 from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A point in time revenue recognition

The revenue of the Group is recognised at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from manufacturing services and distribution income to the Group's customers in connection with the production of handsets are recognised when the goods are passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (including sales of goods, delivery service and processing service), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2) *(Continued)*

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Warranties

The Group accounts for the warranty in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

Revenue recognition (prior to 1 January 2018)

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 met 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 and distribution 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).

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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".

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.

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.

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.

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.

If an item of property, plant and equipment becomes 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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).

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.

The recoverable amount of tangible and intangible assets are estimated individually, 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 (or a cash-generating unit) 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 in profit or loss 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.

Leasehold land and building for own use

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold 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 initial recognition.

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 at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which are recognised initially in OCI and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates/joint ventures.

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 OCI and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an 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 loss before tax 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 if 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.

The carrying amount of deferred tax assets is reviewed at each 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in OCI or directly in equity, in which case the current and deferred tax is also recognised in OCI 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. 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 requires delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or a financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets of the Group are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is not held for trading.

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.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (Continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, other receivables, bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate grouping based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- Nature of financial instruments (e.g. the Group's trade receivables, other receivables, bank deposits and bank balances are each assessed as a separate group.); and

- Past-due status.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL *(Continued)*

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified into following specified categories, including financial assets at FVTPL, loans and receivables and AFS financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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.

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 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

Financial assets at FVTPL *(Continued)*

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 36.

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 except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in OCI 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.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured 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 (before application of IFRS 9 on 1 January 2018)

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

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.

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 OCI 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 OCI and accumulated under the heading of revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instrument.

Financial liabilities at amortised cost

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

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 (under IFRS 9 since 1 January 2018)

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 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.

Embedded derivatives (before application of IFRS 9 on 1 January 2018)

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to 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.

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

Equity-settled share-based payments to employees and others who provide similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of services received determined by reference to the fair value of share options or ordinary shares granted at the grant date without taking into consideration all non-market vesting conditions 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment arrangements *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

At the end of the reporting period, the Group revises its estimates of the number of options or ordinary shares that are expected to vest based on assessment of all relevant non-market vesting conditions. 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.

Timing of revenue recognition

In determining the timing of revenue recognised for manufactured goods, the directors of the Company have considered the Group have no enforceable right to payment for performance completed to date based on its legal advisor's opinion. In cases where the Group's right has changed, the timing of recognition of such revenue may vary.

Significant influence over interests in associates

Although the Group only owns less than 20% equity interests in Diabell Co., Ltd. ("Diabell") and Mango, the Group has significant influence over Diabell and Mango by virtue of its right to appoint one out of five directors to the board of directors of Diabell and one out of four directors to the board of directors of Mango (see note 21).

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

Critical judgements in applying accounting policies *(Continued)*

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 22).

Key sources of estimation uncertainty

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

Impairment assessment of the goodwill

Determining an estimation of the recoverable amount of the cash-generating unit (the "CGU") to which the goodwill has been allocated, 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 CGU discounted to its present value and requires the use of key assumptions, including the pre-tax discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the historical financial performance of the CGU, the relevant industry growth forecasts and 5-year 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. Any changes in the key assumptions may affect the amount of impairment loss on the goodwill. Based on the assessment made by the management of the Company, impairment loss on the goodwill amounting to US$79,435,000 (2017: nil) is recognised for the year ended 31 December 2018.

Impairment assessment of the interests in Mango and fair value measurement of investment in convertible notes issued by Mango

In determining the impairment loss of interests in Mango, it requires an estimation of the recoverable amount, which is the higher of the fair value less costs of disposal and value in use. The Group engages an independent professional valuer to estimate its share of the present value of the estimated future cash flows expected to be generated from Mango, including the expected dividend income from Mango and the proceeds from the ultimate disposal of the investment. The Group also takes into consideration of any potential investments by market investments of the shares of Mango, the actual performance of Mango during the current year and the business plan of Mango approved by the management of Mango for the foreseeable future. Any changes in the key assumptions may affect the amount of impairment loss on the interests in Mango. After making such assessment, an impairment loss of US$77,190,000 was recognised for the interests in Mango for the year ended 31 December 2018.

In performing the fair value measurement of investment in convertible notes issued by Mango, it requires the assessment of the amounts that the Group would receive from the convertible notes, for which, the directors of the Company considered that Mango's financial performance, its ability to continue as a going concern and Mango's repayment capacity, such as its ability to raise additional funding. Any significant enhancement of Mango's liquidity, a change on its fair value may arise. After the assessment, a fair value loss of US$44,806,000 was recognised for the convertible notes for the year ended 31 December 2018.

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

Key sources of estimation uncertainty *(Continued)*

Fair value measurement of financial assets

In determining the fair values of financial assets as disclosed in notes 19 and 20, the Group engages independent professional valuers to perform valuations based on valuation models or estimates the fair values based on the market price in recent transactions where applicable. The amounts by valuation models are determined based on the cash flow projection for the estimated future cash flow 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 and financial budgets and the Group's management's expectation for the market development where applicable. Any changes in the key assumptions may affect the amount of impairment loss on the fair value.

Income taxes

As at 31 December 2018, a deferred tax asset of US$4,190,000 (2017: US$2,514,000) in relation to unused tax losses of US$14,004,000 (2017: US$8,379,000) 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$1,590,041,000 (2017: US$1,206,768,000) 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.

During the year ended 31 December 2018, no income tax (2017: US$12,878,000) 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$1,213,508,000 (2017: US$1,318,638,000) in 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 and trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$12,314,000 (2017: US$196,000,000).

At 31 December 2018, the Group has not recognised deductible temporary differences on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$259,033,000 (2017: US$71,855,000) 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.

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

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of trade receivables

The Group makes allowance for credit losses of trade receivables based on assessment on the recoverability of trade receivables. In determining whether an allowance for credit losses is required, the Group takes into consideration of the customers' default history, settlement patterns, subsequent settlements, aged analysis of the trade receivables. Starting from 1 January 2018, the Group also considered the general economic conditions at the reporting date and forecast of future conditions. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for credit losses in the period in which such estimate has changed. As at 31 December 2018, the carrying amount of trade receivables is US$3,638,370,000 (net of allowance for credit losses of US$1,795,000) (2017: carrying amount of US$3,461,169,000 (net of allowance for doubtful debts of US$903,000)).

Estimated allowance for inventories

The management of the Group reviews an aged analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in operation. Estimation of net realisable value are based on the latest invoice prices and current market condition. Where the net realisable value is less than the carrying amount, impairment loss may arise. As at 31 December 2018, the carrying amount of inventories is approximately US$1,400,388,000 (net of allowance for slowing moving inventories of US$88,556,000) (2017: US$1,024,611,000 (net of allowance for slowing moving inventories of US$77,599,000)).

Useful lives and impairment assessment of property, plant and equipment

The management determines the estimated useful lives, the residual values and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amounts of an asset may not be recoverable. The management of the Group will increase the depreciation charge where useful lives are expected to be shorter than expected. As at 31 December 2018, the carrying amount of property, plant and equipment is US$1,002,393,000 (2017: US$974,236,000).

5. REVENUE AND 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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results

The Group's revenue is from contracts with customers and mainly arising from the manufacturing services (including sales of goods, delivery service and processing service) and distribution income amounting to US$14,868,132,000 (2017: US$11,873,364,000) and US$61,771,000 (2017: US$206,746,000), respectively, to its customers in connection with the production of handsets.

The Group applies the practical expedient that information regarding the transaction prices allocated to the remaining performance obligation for contracts with customer is not disclosed as the original expected duration of the contracts are less than one year.

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

	2018 **US$'000**	2017 US$'000
Segment revenue (external sales)		
Asia	**11,770,631**	10,241,720
Europe	**2,025,658**	1,647,937
America	**1,133,614**	190,453
Total	**14,929,903**	12,080,110
Segment profit (loss)		
Asia	**224,330**	237,043
Europe	**(368,534)**	(161,653)
America	**36,386**	27,621
	(107,818)	103,011
Other income, gains and losses	**(8,017)**	160,251
Impairment loss recognised for available-for-sale investments	**–**	(202,503)
Impairment loss recognised for goodwill	**(79,435)**	–
Impairment loss recognised for interests in associates	**(84,820)**	–
Fair value loss of convertible notes	**(44,806)**	–
General and administrative expenses	**(275,356)**	(374,548)
Research and development expenses	**(214,726)**	(160,829)
Interest expense on bank borrowings	**(27,705)**	(11,232)
Share of profit (loss) of associates	**3,085**	(8,694)
Share of loss of joint ventures	**(503)**	(1,014)
Loss before tax	**(840,101)**	(495,558)

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

	2018 US$'000	2017 US$'000
ASSETS		
Segment assets		
Allocated		
Asia	**2,636,958**	2,918,923
Europe	**962,928**	1,051,615
America	**584,954**	315,563
Total	**4,184,840**	4,286,101
Unallocated		
Property, plant and equipment	**982,433**	923,906
Inventories	**1,391,886**	980,731
Cash and bank deposits	**998,300**	1,332,614
Others	**1,163,866**	774,894
Corporate assets	**183,038**	489,437
Consolidated total assets	**8,904,363**	8,787,683
LIABILITIES		
Segment liabilities		
Allocated		
Europe	**471,807**	377,593
America	**36,968**	49,519
Total	**508,775**	427,112
Unallocated		
Trade and other payables	**4,671,180**	4,294,685
Others	**53,944**	42,784
Corporate liabilities	**1,520,183**	843,383
Consolidated total liabilities	**6,754,082**	5,607,964

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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information

	Year ended 31 December 2018				
	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	–	552	3,054	273,387	276,993
Depreciation and amortisation*	117,794	11,352	3,593	46,734	179,473
Loss on disposal and write-off of property, plant and equipment	–	1,544	1	19,796	21,341
Impairment loss recognised on trade receivables	932	17	–	–	949
Provision for warranty	11,860	58,017	–	–	69,877
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Net gain arising on short-term investments at FVTPL	–	–	–	(19,309)	(19,309)
Net loss arising on equity instruments at FVTPL	–	–	–	70,687	70,687
Write down of inventories to net realisable value	–	–	–	132,714	132,714

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information *(Continued)*

	Year ended 31 December 2017				
	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	–	7,063	1,420	211,065	219,548
Depreciation and amortisation*	97,777	14,953	2,651	55,961	171,342
Loss on disposal and write-off of property, plant and equipment	–	23,633	–	5,421	29,054
Allowance for doubtful debts, net	116	–	1	–	117
Provision for warranty	9,965	77,567	148	–	87,680
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Gain on disposal of AFS investments	–	–	–	(15,468)	(15,468)
Impairment loss recognised for AFS investments	–	–	–	202,503	202,503
Gain from changes in fair value of financial assets designated as FVTPL	–	–	–	(19,209)	(19,209)
Write down of inventories to net realisable value	–	–	1,864	67,148	69,012

* Substantially all depreciation and amortisation included in segment profit (loss) are expensed through cost of inventories despite the related property, plant and equipment are excluded from segment assets.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

Majority of the Group's segment revenue based on location of customers are attributed to the PRC and Finland included in Asia and Europe respectively.

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

Information about the Group's revenue from external customers and its non-current assets, both presented based on the Group's geographical location of operations are as follows:

	Revenue from external customers		Non-current assets	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
PRC (country of domicile)	**9,859,998**	8,429,010	**821,540**	836,731
India	**4,901,393**	3,299,922	**116,977**	50,849
Mexico	**52,879**	95,675	**11,669**	12,093
USA	**1**	1	**6,211**	6,190
Other countries	**115,632**	255,502	**149,699**	258,471
	14,929,903	12,080,110	**1,106,096**	1,164,334

Note: Non-current assets excluded unallocated 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:

	2018	2017
	US$'000	US$'000
Customer A[1]	**4,566,468**	3,071,428
Customer B[1]	**3,600,260**	2,512,930
Customer C[1]	**2,462,863**	1,892,892
Customer D[1]	**N/A[2]**	1,406,551

[1] Revenue from provision of manufacturing services to customers mainly located in Asia and Europe (2017: Asia) in connection with the production of handsets.

[2] The customer did not contribute over 10% of the total sales of the Group in 2018.

6. OTHER INCOME, GAINS AND LOSSES

	2018 US$'000	2017 US$'000
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank deposits and bank balances	**35,035**	38,665
Service income	**99,534**	56,999
Sales of materials and scraps	**26,357**	13,641
Repairs and modifications of mouldings	**25,981**	16,658
Net foreign exchange (loss) gain	**(112,362)**	19,515
Government subsidies *(note)*	**66,622**	49,563
Rental income	**19,985**	16,586
Loss on disposal and write-off of property, plant and equipment	**(21,341)**	(29,054)
Gain from changes in fair value of financial assets designated as FVTPL	**–**	19,209
Gain on deemed disposal of interests in associates	**–**	865
Impairment loss recognised for property, plant and equipment	**(6,107)**	–
Gain on disposal of AFS investments	**–**	15,468
Net fair value gain (loss) on financial assets at FVTPL		
– short-term investments	**19,309**	–
– equity instruments	**(70,687)**	–
Others	**9,191**	(865)
	91,517	217,250

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

7. LOSS BEFORE TAX

	2018 US$'000	2017 US$'000
Loss before tax has been arrived at after charging:		
Amortisation of intangible assets	**9,500**	9,500
Amortisation of prepaid lease payments (included in general and administrative expenses)	**1,794**	1,259
Depreciation of property, plant and equipment	**167,260**	159,939
Depreciation of investment properties	**919**	644
Total depreciation and amortisation	**179,473**	171,342
Less: Amount capitalised in inventories	**(138,609)**	(119,667)
Amount included in research and development expenses	**(5,158)**	(4,641)
	35,706	47,034
Staff costs		
Directors' emoluments	**2,125**	3,200
Retirement benefit scheme contributions (excluding directors)	**58,694**	51,994
Other staff costs	**464,336**	456,819
Equity-settled share-based payments	**15,632**	58,393
Total staff costs	**540,787**	570,406
Less: Amount capitalised in inventories	**(272,509)**	(249,501)
Amount included in research and development expenses	**(120,963)**	(102,354)
	147,315	218,551
Auditor's remuneration	**1,204**	1,064
Cost of inventories recognised as expense	**14,811,318**	11,793,088
Impairment loss recognised in respect of trade receivables, net	**949**	117
Provision for warranty	**69,877**	87,680
Write down of inventories to net realisable value	**132,714**	69,012

8. 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:

2018	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 2018 US$'000
Chih Yu Yang (also acting as the chief executive)	–	101	612	–	713
Wang Chien Ho	–	70	394	–	464
Kuo Wen-Yi (appointed on 29 June 2018)	–	198	–	–	198
Lau Siu Ki	31	9	–	–	40
Daniel Joseph Mehan	31	–	–	–	31
Tao Yun Chih	31	–	–	–	31
Huang Chin Hsien (resigned on 29 June 2018)	–	33	84	–	117
Yu Mingjen (resigned on 4 May 2018)	–	61	–	–	61
Luo Zhongsheng (resigned on 2 November 2018)	–	396	74	–	470
	93	868	1,164	–	2,125

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

2017	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 2017 US$'000
Chih Yu Yang (also acting as the chief executive)	–	95	1,457	–	1,552
Wang Chien Ho	–	700	–	–	700
Huang Chin Hsien (appointed on 31 March 2017)	–	60	273	–	333
Yu Mingjen (appointed on 8 December 2017)	–	17	–	–	17
Luo Zhongsheng (appointed on 31 March 2017)	–	378	112	–	490
Lau Siu Ki	31	9	–	–	40
Daniel Joseph Mehan	31	–	–	–	31
Tao Yun Chih (appointed on 9 March 2017)	25	–	–	–	25
Chen Fung Ming (retired on 25 May 2017)	12	–	–	–	12
Tong Wen-hsin (resigned on 1 January 2017)	–	–	–	–	–
	99	1,259	1,842	–	3,200

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 of the Company.

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 director and independent 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. Neither any of the directors nor the five highest paid individuals were paid as compensation for loss of office and as incentive to join or upon joining the Group during the years ended 31 December 2018 and 2017.

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2017: three) executive directors of the Company, whose emoluments are included in note 8 above. The emoluments of the remaining two (2017: two) individuals were as follows:

	2018 US$'000	2017 US$'000
Salaries and other benefits	156	244
Performance-related incentive payments	901	761
	1,057	1,005

Their emoluments were within the following bands:

	Number of employees	
	2018	2017
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	–	–
HK$4,000,001 to HK$4,500,000	–	–
HK$4,500,001 to HK$5,000,000	1	1
	2	2

10. INCOME TAX EXPENSE

	2018 US$'000	2017 US$'000
Current tax		
– Hong Kong	–	–
– Other jurisdictions	6,378	25,126
– Withholding tax for distributed profit of investments in the PRC	–	12,878
	6,378	38,004
(Over)underprovision in prior years		
– Hong Kong	–	–
– Other jurisdictions	(17,634)	193
	(17,634)	193
	(11,256)	38,197
Deferred tax *(note 23)*		
– Current year	28,657	1,272
– Change in tax rate	(387)	(9,633)
	28,270	(8,361)
	17,014	29,836

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

10. INCOME TAX EXPENSE *(Continued)*

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2017: 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% for a period of 3 years, i.e. effective from 2016 and 2017. Besides, one of the Company's PRC subsidiaries was entitled to a concessionary tax rate of 15% under the China's "Great Western Expansion" campaign. Except these three subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2017: 25%).

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

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

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

	2018 **US$'000**	2017 US$'000
Loss before tax	**(840,101)**	(495,558)
Tax credit at the PRC income tax rate of 25% (2017: 25%) for the year *(note)*	**(210,025)**	(123,890)
Effect of different tax rates of subsidiaries	**(582)**	2,178
Effect of income taxed at concessionary tax rates	**(11,329)**	(9,791)
Tax effect of expenses not deductible for tax purpose	**99,643**	81,730
Tax effect of income not taxable for tax purpose	**(17,061)**	(13,020)
Tax effect of tax losses/deductible temporary differences not recognised	**175,034**	86,763
Tax effect of share of (profit) loss of associates	**(771)**	2,174
Tax effect of share of loss of joint ventures	**126**	254
Tax effect of change in tax rate	**(387)**	(9,633)
Withholding tax for distributed profit of investments in the PRC	**–**	12,878
(Over)underprovision in prior years	**(17,634)**	193
Income tax expense for the year	**17,014**	29,836

Note: The domestic income tax rate of 25% (2017: 25%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

11. DIVIDENDS

	2018 US$'000	2017 US$'000
Dividends recognised as distribution during the year		
2016 final – US$0.00526 per share	–	42,000
Special – US$0.01252 per share	–	100,000
	–	142,000

No dividend was declared or proposed for the years ended 31 December 2018 and 31 December 2017, nor has any dividend been proposed since the end of the reporting period.

12. LOSS PER SHARE

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

	2018 US$'000	2017 US$'000
Loss attributable to the owners of the Company		
Loss for the purposes of basic loss per share	**(857,121)**	(525,487)

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**8,109,008,913**	7,951,805,213

The computation of diluted loss per share for the years ended 31 December 2018 and 31 December 2017 did not assume the exercise of the Company's share awards as the assumed exercise of the outstanding share awards would result in a decrease in the loss per share.

13. 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 2017	753,851	859,034	116,716	2,578	1,732,179
Exchange adjustments	39,564	58,309	5,103	405	103,381
Additions	19,921	163,538	20,886	15,203	219,548
Disposals and write-off	(6,169)	(62,295)	(32,110)	(419)	(100,993)
Transfers	826	5,380	1,333	(7,539)	–
At 31 December 2017	807,993	1,023,966	111,928	10,228	1,954,115
Exchange adjustments	(35,263)	(54,771)	(3,551)	(1,318)	(94,903)
Additions	19,743	170,975	15,496	70,779	276,993
Disposals and write-off	(15)	(134,293)	(6,400)	–	(140,708)
Transfers	8,296	37,992	3,186	(49,474)	–
At 31 December 2018	800,754	1,043,869	120,659	30,215	1,995,497
DEPRECIATION AND IMPAIRMENT					
At 1 January 2017	277,271	491,693	58,144	–	827,108
Exchange adjustments	18,234	34,529	2,675	–	55,438
Charge for the year	40,519	108,070	11,350	–	159,939
Eliminated on disposals and write-off	(6,098)	(48,517)	(7,991)	–	(62,606)
At 31 December 2017	329,926	585,775	64,178	–	979,879
Exchange adjustments	(18,994)	(29,758)	(2,099)	–	(50,851)
Charge for the year	44,592	111,391	11,277	–	167,260
Eliminated on disposals and write-off	(15)	(104,734)	(4,542)	–	(109,291)
Impairment loss recognised in profit or loss	–	6,106	1	–	6,107
At 31 December 2018	355,509	568,780	68,815	–	993,104
CARRYING VALUES					
At 31 December 2018	445,245	475,089	51,844	30,215	1,002,393
At 31 December 2017	478,067	438,191	47,750	10,228	974,236

Included in the land and buildings are freehold land, located in Hungary, Mexico and India (2017: Hungary, Mexico and India), having an aggregate cost of approximately US$10,549,000 (2017: US$11,338,000). All buildings are situated outside Hong Kong.

13. 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 2018, the 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$6,107,000 (2017: nil) has been recognised in respect of plant and machinery and fixtures and equipment for the year.

14. INVESTMENT PROPERTIES

	US$'000
COST	
At 1 January 2017	39,605
Exchange adjustment	4,420
At 31 December 2017	44,025
Exchange adjustment	(3,549)
At 31 December 2018	40,476
DEPRECIATION	
At 1 January 2017	33,332
Exchange adjustment	3,900
Provided for the year	644
At 31 December 2017	37,876
Exchange adjustment	(3,066)
Provided for the year	919
At 31 December 2018	35,729
CARRYING VALUES	
At 31 December 2018	4,747
At 31 December 2017	6,149

The fair value of the Group's investment properties at 31 December 2018 was US$10,460,000 (2017: US$11,259,000). 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. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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

15. PREPAID LEASE PAYMENTS

The amount represents land use rights in the PRC, Vietnam and India (2017: the PRC, Vietnam and India):

	2018 **US$'000**	2017 US$'000
Long leases	**43,816**	47,213
Medium-term leases	**3,993**	4,412
	47,809	51,625

16. GOODWILL

	US$'000
COST	
At 1 January 2017, 31 December 2017 and 1 January 2018	79,435
Impairment	(79,435)
At 31 December 2018	–

Valuation and allocation of goodwill

For the purposes of impairment testing, goodwill has been allocated to the CGU relating to the Nokia-related business, comprising operation through certain subsidiaries, including the manufacturing of feature phones and smart phones.

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. 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. That calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 18.81% (2017: 17.54%). 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 and does not exceed the average long-term growth rate for the relevant industry. 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. Any change in the key assumptions may affect the amount of impairment loss on the goodwill. During the year, due to the unsatisfied performance of the CGU and it takes longer than expected time to penetrate the market, the cash flow projections and valuation assumptions were adjusted to reflect the unexpected result of the business. Based on the valuation, an impairment loss of US$79,435,000 was allocated to the goodwill. For the allocation of impairment loss to other assets, please refer to respective notes. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal or net realisable value if applicable, its value in use and zero.

17. INTANGIBLE ASSETS

	US$'000
COST	
At 1 January 2017	19,000
Exchange adjustments	987
At 31 December 2017	19,987
Exchange adjustments	(790)
At 31 December 2018	19,197
AMORTISATION	
At 1 January 2017	–
Exchange adjustments	329
Charge for the year	9,500
At 31 December 2017	9,829
Exchange adjustments	(132)
Charge for the year	9,500
At 31 December 2018	19,197
CARRYING VALUES	
At 31 December 2018	–
At 31 December 2017	10,158

The intangible assets represent development costs arising on the acquisition of Nokia-related business, which are estimated to have definite useful lives of 2 years and amortised on a straight-line basis.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017 US$'000
Listed equity investments:	
Equity investment listed in Hong Kong	87,282
Equity investment listed in Taiwan	29,571
	116,853
Unlisted equity investments *(note)*	73,334
Total of AFS investments analysed for reporting purposes as non-current assets	190,187

18. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Note:

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

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

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

An impairment loss of US$2,499,000 was recognised for the other equity investments for the year ended 31 December 2017 as the directors of the Group considered that no future cash flow would be generated from such investments which are of no market value.

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

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2018 US$'000	2017 US$'000
Listed securities:		
– Equity securities listed in Hong Kong	**3,075**	87,282
– Equity securities listed in Taiwan	**10,007**	19,991
	13,082	107,273
Short-term investments *(note b)*	**454,421**	–
Financial assets designated at FVTPL:		
Convertible notes *(note a)*	**–**	60,000
Short-term investments *(note b)*	**–**	426,554
	–	486,554
Analysed for reporting purposes as:		
Current assets	**454,421**	426,554
Non-current assets	**13,082**	167,273
	467,503	593,827

Notes:

(a) During the year ended 31 December 2016, the Group 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, issued by Mango (the "Original CN"). In exchange for the Original CN, the Group shall deliver inventories with an aggregate value of US$60,000,000 to Mango upon request by Mango.

On 1 March 2018, an addendum (the "Addendum") was signed by the Group and Mango to extend the maturity date of the Original CN to 1 March 2019 (the "Maturity Date") and to revise certain terms of the Original CN. Pursuant to the Addendum, the principal amount of the Original CN changed to be lesser of (i) US$60,000,000 and (ii) the aggregate value of the inventories that the Group has delivered plus any additional inventories to Mango (the "CN"). As a result, contract liabilities of US$17,802,000, which was included in "trade and other payables", and the Original CN were derecognised and the CN with principal amount of US$42,198,000 was recognised as at 1 March 2018. Subsequent to 1 March 2018, inventories with an aggregate value of US$2,608,000 were delivered to Mango, and thus the principal amount of the CN has further increased to US$44,806,000 as at 31 December 2018.

The Group and Mango 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 Original CN into ordinary shares of Mango, provided that such conversion(s) shall not be effected unless Mango or the Group gives prior written consent. However, pursuant to the Addendum, to the extent there is any principal amount of the CN remains outstanding at the Maturity Date, all of outstanding principal amount of the CN would no longer be automatically converted into ordinary shares of Mango unless mutually agreed in writing by the Group and Mango. Instead, upon the Maturity Date, the Group shall have the right to elect (i) to require Mango to repay the outstanding principal amount and redeem the CN in its entirety; or (ii) to convert into ordinary shares. However, prior to the conversion, Mango shall have the overwriting right to elect (i) to still repay the outstanding principal amount and redeem the CN in its entirety with a premium accrued on the portion of the outstanding principal amount being repaid at a simple interest of 7% per annum calculated from the date of issuance of the CN to the repayment date (the "Premium"); or (ii) to effect the conversion of all or a portion of the outstanding principal amount into ordinary shares of Mango and repay the remaining outstanding principal amount (if any) that Mango elects not be converted with the Premium.

During the year ended 31 December 2018, the directors of the Company have considered to exercise the Group's right to require Mango to repay the outstanding principal amount and redeem the CN in its entirety. The directors of the Company considered that Mango has a doubt of going concern in view of its financial performance, and therefore assessed Mango's repayment capacity, such as its ability to raise additional funding. After the assessment, a fair value loss of US$44,806,000 was recognised for the convertible notes for the year ended 31 December 2018. On 21 February 2019, the Group has subsequently exercised such right. Up to the date of this report, the CN was not repaid by Mango.

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

20. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018
	US$'000
Equity securities listed in Taiwan *(note a)*	**4,207**
Unlisted equity securities *(note b)*	**115,025**
	119,232

Notes:

(a) The above listed equity investments represent ordinary shares of an entity listed in Taiwan. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

(b) The above unlisted equity investments represent the Group's equity interest in several private entities established in the PRC, India and Taiwan. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they are held for long-term strategic purposes.

As at 31 December 2018, included in unlisted equity securities above, there is the Group's investment in HMD global Oy, a company incorporated in Finland, which is engaged in the development, manufacture and sale of telecommunication devices, software and related services. During the year ended 31 December 2018, the Group further acquired certain interests in HMD at a cash consideration of US$62,000,000 (2017: nil).

In determining the fair value of unlisted equity investment in relation to HMD, the Group engages an independent professional valuer to perform such valuation. The amount is determined based on the cash flow projection for the estimated future cash flow 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 and financial budgets approved by HMD 's management and the Group's management's expectation for the market development.

21. INTERESTS IN ASSOCIATES

	2018	2017
	US$'000	US$'000
Cost of investments in associates, less impairment		
Unlisted	**16,869**	101,689
Share of post-acquisition profit (loss) and		
other comprehensive income (expense), net of dividend received	**4,103**	(1,341)
	20,972	100,348

21. INTERESTS IN ASSOCIATES *(Continued)*

At 31 December 2018 and 2017, 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
					2018	2017	**2018**	2017	
Diabell *(note a)*	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 *(note b)*	Limited liability company	USA	USA	Class A membership interest	**49%**	49%	**49%**	49%	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 *(note c)*	Limited company	Cayman Islands	Taiwan	Ordinary	**27.55%**	27.55%	**27.55%**	27.55%	Research and development of wearable products
杭州耕德電子有限公司 (also known as Hangzhou Gengde Electronics Co., Ltd.)	Limited company	PRC	PRC	Equity interest	**35%**	35%	**33.33%**	33.33%	Engaging in the business of design, development and manufacturing of electronic devices and handset accessories
Mango *(note d)*	Limited company	BVI	Hong Kong	Ordinary	**15.10%**	15.69%	**25.00%**	33.33%	Engaging in the provision of mobile devices to hotels and related hospitality technology solutions

Notes:

(a) 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.

(b) During the year ended 31 December 2018, an impairment loss of US$6,922,000 (2017: nil) was recognised to fully impair the Group's interests in CExchange, LLC as the director considered that no future cash flows would be generated from such interests which are of no market value.

During the year ended 31 December 2017, the Group further acquired another 19% interest in CExchange, LLC at a consideration of approximately US$1,341,000 in cash.

(c) During the year ended 31 December 2018, an impairment loss of US$708,000 (2017: nil) was recognised to fully impair the Group's interests in Rooti Labs Limited as the directors of the Group considered that no future cash flows would be generated from such interests which are of no market value.

(d) Mango is a private limited company established in the BVI. The Group has a right to redeem the investments in Mango under certain circumstances. The directors of the Company is of the view that the fair value of such redemption right is insignificant as at 31 December 2018 and 2017.

During the year ended 31 December 2018, an impairment loss of US$77,190,000 was recognised for the Group's interests in Mango. In determining the impairment loss of interests in Mango, it requires an estimation of the recoverable amount, which is the higher of the fair value less costs of disposal and value in use. The Group engages an independent professional valuer to estimate its share of the present value of the estimated future cash flows expected to be generated from Mango, including expected dividend income from Mango and the proceeds from the ultimate disposal of the investment. The Group also takes into consideration of any potential investments by market investments of the shares of Mango, the actual performance of Mango during the current year and the business plan of Mango approved by the management of Mango in the foreseeable future.

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

Mango

	Year ended 31.12.2018 US$'000	Year ended 31.12.2017 US$'000
Revenue	**13,362**	10,428
Loss for the year	**(122,737)**	(73,336)
Net liabilities	**(76,739)**	(6,963)

Aggregate information of associates that are not individually material

	Year ended 31.12.2018 US$'000	Year ended 31.12.2017 US$'000
Total revenue	**464,384**	307,237
Total profit for the year	**13,739**	6,840
Total other comprehensive expense	**(3,186)**	(1,214)
Group's share of profit and other comprehensive income of associates for the year	**3,899**	3,088

22. INTERESTS IN JOINT VENTURES

	2018 US$'000	2017 US$'000
Cost of unlisted investments in joint ventures	**8,037**	8,037
Share of post-acquisition loss and other comprehensive expense	**(5,647)**	(5,238)
	2,390	2,799

At 31 December 2018 and 2017, the Group had interests in the following joint ventures:

Name of joint venture	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held by the Group		Principal activity
					2018	2017	**2018**	2017	
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.

23. 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 2017	(7,131)	(4,202)	7,100	(1,037)	(5,004)	(18,362)	(28,636)
(Credit) charge to profit or loss for the year	(2,939)	(11,572)	1,594	(1,555)	2,244	13,500	1,272
Effect of change in tax rate	(2,464)	(1,499)	2,018	–	(2,060)	(5,628)	(9,633)
Exchange adjustments	(564)	(225)	478	78	(300)	(1,040)	(1,573)
At 31 December 2017	(13,098)	(17,498)	11,190	(2,514)	(5,120)	(11,530)	(38,570)
Charge (credit) to profit or loss for the year	7,072	16,975	(363)	(1,767)	5,053	1,687	28,657
Effect of change in tax rate	(62)	(8)	–	–	–	(317)	(387)
Exchange adjustments	346	60	(413)	91	67	290	441
At 31 December 2018	(5,742)	(471)	10,414	(4,190)	–	(9,870)	(9,859)

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

23. 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:

	2018	2017
	US$'000	US$'000
Deferred tax assets	**(20,300)**	(43,932)
Deferred tax liabilities	**10,441**	5,362
	(9,859)	(38,570)

At 31 December 2018, the Group has not recognised deductible temporary differences on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$259,033,000 (2017: US$71,855,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unused tax losses of approximately US$1,604,045,000 (2017: US$1,215,147,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$14,004,000 (2017: US$8,379,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$1,590,041,000 (2017: US$1,206,768,000) 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 by 5 consecutive years.

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$1,213,508,000 (2017: US$1,318,638,000) 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.

24. INVENTORIES

	2018	2017
	US$'000	US$'000
Raw materials	**950,503**	711,735
Work-in-progress	**271,032**	118,156
Finished goods	**178,853**	194,720
	1,400,388	1,024,611

25. TRADE AND OTHER RECEIVABLES

	2018 US$'000	2017 US$'000
Trade receivables	3,640,165	3,462,072
Less: Allowance for credit losses	(1,795)	(903)
	3,638,370	3,461,169
Other taxes recoverables	549,483	169,564
Other receivables, deposits and prepayments	117,725	145,870
Total trade and other receivables	4,305,578	3,776,603

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

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

	2018 US$'000	2017 US$'000
0–90 days	3,598,003	3,404,202
91–180 days	30,350	41,405
181–360 days	2,331	9,776
Over 360 days	7,686	5,786
	3,638,370	3,461,169

As at 31 December 2018, 99% (2017: 98%) 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.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2017, trade receivables with the aggregate carrying amount of approximately US$56,967,000 that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2017 US$'000
91–180 days	41,405
181–360 days	9,776
Over 360 days	5,786
	56,967

Movement in the allowance for doubtful debts:

	2017 US$'000
Balance at beginning of the year	737
Impairment losses recognised on receivables	119
Amounts recovered during the year	(2)
Exchange adjustments	49
Balance at end of the year	903

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 36.

26. TRADE AND OTHER PAYABLES

	2018	2017
	US$'000	US$'000
Trade payables	**3,920,741**	3,693,693
Accruals and other payables	**1,170,684**	931,650
Deferred consideration *(note)*	**–**	19,120
	5,091,425	4,644,463

Note: The amount represented the aggregate value of the inventories to be delivered by the Group to Mango as the consideration for the Original CN, details of which are set out in note 19(a).

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

	2018	2017
	US$'000	US$'000
0–90 days	**3,678,586**	3,616,960
91–180 days	**182,819**	47,979
181–360 days	**39,059**	19,900
Over 360 days	**20,277**	8,854
	3,920,741	3,693,693

27. BANK BORROWINGS

	2018	2017
	US$'000	US$'000
Bank loans	**1,427,217**	712,600
Analysis of bank borrowings by currency:		
US$	**1,427,217**	712,600

The bank borrowings as at 31 December 2018 are unsecured, obtained with original maturity of two to twelve months (2017: one to six months) and carry interest at fixed interest rate ranging from 2.76% to 4.40% (2017: 1.72% to 2.40%) per annum. Out of total bank borrowing, bank borrowing of US$198,000,000 (2017: US$90,000,000) contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 1.73% per annum (2017: 2% per annum).

28. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2017, 31 December 2017 and 31 December 2018	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2017	7,985,254,691	319,410
Issue pursuant to the share scheme *(note 41(b))*	108,225,600	4,329
Balance at 31 December 2017	8,093,480,291	323,739
Issue pursuant to the share scheme *(note 41(b))*	120,594,615	4,824
Balance at 31 December 2018	8,214,074,906	328,563

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

29. 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.

30. 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 gain from the forward foreign exchange contracts of US$2,579,000 (2017: gain of US$6,456,000) 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:

	2018 **US$'000**	2017 US$'000
US$	**397,960**	104,000

As at 31 December 2018, the fair value of the Group's currency derivatives is estimated to be approximately US$4,481,000 assets (2017: US$1,902,000 assets), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates, and is included as other receivables (2017: other receivables) at the end of the reporting period. The contracts outstanding as at 31 December 2018 mainly related to buying of US$ and Mexican Peso ("MXN") (2017: US$) with maturities in the first quarter of 2019 (2017: first quarter of 2018).

31. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry interest at prevailing market rate of 6.03% (2017: 4.71%) 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 2.49% (2017: 3.12%) per annum on average.

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

	2018 **US$'000**	2017 US$'000
US$	**703,389**	962,722
RMB	**487,522**	620,797
Indian Rupee ("INR")	**84,139**	204,955
Brazilian Real	**58,186**	66,715
New Taiwan Dollar	**37,687**	28,149
Others	**114,343**	128,531
	1,485,266	2,011,869

32. PROVISION

	2018 US$'000	2017 US$'000
At 1 January	**96,896**	21,172
Exchange adjustments	**(554)**	1,022
Provision for the year	**69,877**	87,680
Utilisation of provision	**(63,500)**	(12,978)
At 31 December	**102,719**	96,896

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.

33. DEFERRED INCOME

	2018 US$'000	2017 US$'000
Government subsidies	**20,844**	23,607

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

34. CAPITAL COMMITMENTS

	2018 US$'000	2017 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**7,923**	4,335

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2018 US$'000	2017 US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	**22,414**	26,342

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:

	2018 US$'000	2017 US$'000
Within one year	**18,932**	4,373
In the second to fifth year inclusive	**4,820**	1,037
	23,752	5,410

Leases are negotiated, and rentals are fixed, for an average term of one to three years (2017: 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.

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 US$'000	2017 US$'000
Financial assets		
Fair value through profit or loss		
Derivatives (included in other receivables)	**4,481**	1,902
Convertible notes	**–**	60,000
Short-term investments	**454,421**	426,554
Equity instruments	**13,082**	–
	471,984	488,456
Financial assets at amortised cost	**5,206,167**	–
Equity instruments at FVTOCI	**119,232**	–
Loans and receivables		
Trade and other receivables	**–**	3,580,111
Bank deposits	**–**	31,964
Bank balances and cash	**–**	1,979,905
	–	5,591,980
Available-for-sale financial assets	**–**	190,187
	5,797,383	6,270,623
Financial liabilities		
At amortised cost		
Trade and other payables	**4,687,331**	4,300,881
Bank borrowings	**1,427,217**	712,600
	6,114,548	5,013,481

(b) Financial risk management objectives and policies

The Group's major financial instruments include derivatives, bank deposits, bank balances and cash, equity instruments at FVTPL/FVTOCI, 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, other price risk and interest rate risk), credit risk and impairment assessment 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.

36. 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 27 for details of these bank 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.

Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL and FVTOCI (2017: available-for-sale investments). For equity securities measured at FVTPL (2017: available-for-sale investments) quoted in the Stock Exchange, the management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain unquoted equity securities for investees operating in mobile ecosystem industry sector for long term strategic purposes which had been designed as FVTOCI (2017: available-for-sale investments measured at cost less impairment). The Group has organised an investment team to monitor the price risk and will consider hedging the risk exposure should the need arise.

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 2018, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US$397,960,000 (2017: US$104,000,000), and their fair values are estimated to be approximately US$4,481,000 (2017: US$1,902,000) assets, and are included as other receivables, at the end of the reporting period. The contracts mainly related to buying of US$ and MXN (2017: US$) with maturities in first quarter of the following year.

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

Currency risk (Continued)

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

	2018 **US$'000**	2017 US$'000
Assets		
US$	**2,053,715**	2,291,025
Liabilities		
US$	**(2,825,599)**	(2,125,396)

At the end of the reporting periods, the Group's bank borrowings of approximately US$528,917,000 (2017: nil) are denominated in US$ other than the functional currency of respective group entities and are included in the monetary liabilities disclosed above.

Exchange rate sensitivity

At the end of the reporting period, in respect of monetary items (excluding derivatives) denominated in currency other than the functional currency of respective group entities, if exchange rates of the functional currency against US$ had been appreciated/depreciated by 3% (2017: 3%) and all other variables were held constant, the Group's pre-tax loss would decrease/increase by approximately US$23,673,000 (2017: increase/decrease by US$2,927,000) for the year and the Group's exchange reserve would decrease/increase by US$87,740,000 (2017: US$91,272,000) for the year. In the current year, global currency market was tremendously volatile. Exchange rates of US$ 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 and INR (2017: RMB), for which RMB/US$ exchange rate ranged between 0.1436 and 0.1590 and INR/US$ exchange rate ranged between 0.0138 and 0.0157 (2017: RMB/US$ ranged between 0.1449 and 0.1530) 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 and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2018 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 receivables 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 performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on debtors with significant balances individually and/or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

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

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

2018	*Note*	External credit rating	Internal credit rating	12-m or lifetime ECL	Gross carrying amount US$
Financial assets at amortised cost					
Bank deposits	*31*	Ba3–Aa3	N/A	12-m ECL	66,697
Bank balances	*31*	Ba3–A1	N/A	12-m ECL	1,418,569
Other receivables	*25*	N/A	*(Note a)*	12-m ECL	82,531
Trade receivables	*25*	N/A	*(Note b)*	Lifetime ECL	3,640,165

Notes:

(a) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. Based on the historical default rate, repayment history and forecast of future conditions on economy and debtors, the directors of the Company considered the expected credit loss for other receivables is immaterial.

(b) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on debtors with significant balances individually and/or by using a provision matrix, grouped based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor.

As part of the Group's credit risk management, the Group uses debtors' past due status to assess the impairment for its customers because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

Average loss rates of 0.01% to 6.12% were applied by the Group to the trade receivable with carrying amount of US$40,367,000 which are past due at the reporting period end.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided US$1,074,000 impairment allowance for trade receivables.

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

Notes: (Continued)

(b) *(Continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL US$'000
As at 1 January 2018	903
Impairment losses recognised	1,074
Impairment losses reversed	(125)
Exchange adjustments	(57)
As at 31 December 2018	1,795

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 two to twelve months (2017: one to six months) and the maturity periods of other financial liabilities are within three months. Out of the total bank borrowings, bank borrowing of US$198,000,000 (2017: US$90,000,000) contains a repayment on demand clause.

As at 31 December 2018, the Group has available unutilised banking facilities of approximately US$1,645,081,000 (2017: US$1,249,638,000). There was no pledge of assets in relation to the banking facilities as at 31 December 2018 and 2017.

(c) Fair value measurements of financial instruments

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

Some of the Group's financial assets 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 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.

36. FINANCIAL INSTRUMENTS *(Continued)*

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
	31.12.2018 US$'000	31.12.2017 US$000				
Equity instrument at FVTPL	**Listed equity investments – 13,082**	N/A	Level 1	Quoted bid prices in an active market	N/A	N/A
Forward foreign exchange contracts classified as other receivables	**Assets – 4,481**	Assets – 1,902	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
CN (defined in note 19(a)) classified (2017: designated) as financial assets at FVTPL	**Convertible notes – 0**	Convertible notes – 60,000	Level 3 (2017: Level 2)	Fair value derived from Mango's repayment capacity as there is no recent investment transaction of the shares of Mango (2017: market value of the shares of Mango in recent investment transaction)	Mango's repayment capacity	The higher the Mango's repayment capacity, the higher the fair value and vice versa
Investment in interest bearing instruments classified as short-term investments classified (2017: designated) as financial assets at FVTPL	**Investment in interest bearing instruments – 454,421**	Investment in interest bearing instruments – 426,554	Level 3	Income approach – discounted cash flow method was used to capture the present value of the expected return, assumed to approximate the minimum guaranteed return, based on the Group's experience with the deposits which have matured to date	Expected guaranteed interest rate, mainly taken into account different counterpart financial institution, which ranged from 3.95% to 4.10% (2017: 3.60% to 4.70%) per annum	The higher the expected guaranteed interest rate, the higher the fair value, and vice versa
Equity instruments at FVTOCI	**Listed equity investments – 4,207**	N/A	Level 1	Quoted bid prices in an active market	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments – 21,541**	N/A	Level 2	Fair value derived from market value of the shares of equity instruments in recent investment transactions	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments – 93,484**	N/A	Level 3	Income approach – discounted cash flow method was used to capture the present value of the expected return	Weighted average cost of capital ("WACC") and discount for lack of control ranged from 8.27% to 20.11% and 24.6% to 45.0% respectively	The lower the WACC or discount for lack of control, the higher the fair value, and vice versa
Listed equity instruments classified as AFS investments	**N/A**	Listed equity investments – 116,853	Level 1	Quoted bid prices in an active market	N/A	N/A

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Reconciliation of Level 3 fair value measurements of financial assets

	Convertible notes US$'000	Unlisted equity investments US$'000	Short-term instruments US$'000
At 1 January 2017	–	N/A	929,627
Net fair value gain recognised in profit or loss	–	N/A	19,209
Purchases	–	N/A	3,074,403
Settlements	–	N/A	(3,636,586)
Exchange adjustments	–	N/A	39,901
At 31 December 2017	–	N/A	426,554
At 1 January 2018 (restated)	–	58,204	426,554
Net fair value gains (losses)			
– in profit or loss	(44,806)	–	19,309
– in other comprehensive income	–	(29,318)	–
Purchases	–	62,000	3,086,818
Settlements	–	–	(3,056,155)
Transfer into Level 3	44,806	2,684	–
Exchange adjustments	–	(86)	(22,105)
At 31 December 2018	–	93,484	454,421

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

Of the total gains or losses for the period included in profit or loss, US$1,567,000 relates to net unrealised gains of short-term investments classified as financial assets at FVTPL at the end of current reporting period, which are included in "other income, gains and losses".

36. 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 with bank borrowings at the same bank that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

Financial assets/liabilities subject to offsetting	**As at 31 December 2018** **Gross amounts of recognised financial assets (liabilities) US$'000**	**Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position US$'000**	**Net amounts of financial assets presented in the consolidated statement of financial position US$'000**
Bank balances	**1,098,738**	**(1,098,738)**	**–**
Bank borrowings	**(1,098,738)**	**1,098,738**	**–**
Interest receivables	**14,991**	**(13,612)**	**1,379**
Interest payables	**(13,612)**	**13,612**	**–**

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

During the year, net interest income of US$32,521,000 (2017: US$14,494,000) was included in interest income under the above arrangement.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payables	Interest payables	Bank borrowings	Total
	US$'000	US$'000	US$'000	US$'000
	(Note 11)		*(Note 27)*	
At 1 January 2017	–	43	418,596	418,639
Financing cash flows	(142,000)	(9,375)	293,223	141,848
Interest expenses	–	11,232	–	11,232
Dividend declared	142,000	–	–	142,000
Exchange adjustment	–	–	781	781
At 31 December 2017	**–**	**1,900**	**712,600**	**714,500**
Financing cash flows	**–**	**(26,159)**	**729,626**	**703,467**
Interest expenses	**–**	**27,705**	**–**	**27,705**
Exchange adjustment	**–**	**–**	**(15,009)**	**(15,009)**
At 31 December 2018	**–**	**3,446**	**1,427,217**	**1,430,663**

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, consideration to Mango in relation to the convertible notes was settled by delivery of inventories with an aggregate value of US$3,926,000 (2017: US$40,880,000).

During the year ended 31 December 2017, part of the considerations for the purchase of several unlisted equity investments during the year comprised inventories and services of approximately US$6,000,000.

39. 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:

	2018 US$'000	2017 US$'000
Hon Hai		
Sales of goods	**3,707**	1,501
Purchase of goods	**4,674**	33,644
Purchase of property, plant and equipment	**–**	5,800
Sales of property, plant and equipment	**–**	5
Lease expense – real properties	**710**	726
Subcontracting income	**1,976**	60,450
Consolidated services and subcontracting expense	**5,574**	2,944
General service expense	**38**	77
Subsidiaries of Hon Hai		
Sales of goods	**145,615**	462,724
Purchase of goods	**341,126**	597,260
Purchase of property, plant and equipment	**62,177**	71,267
Sales of property, plant and equipment	**1,886**	3,501
Lease income – real properties	**3,645**	3,450
Lease income – non-real properties	**235**	490
Lease expense – real properties	**5,324**	2,673
Lease expense – non-real properties	**12,778**	13,237
Subcontracting income	**14,882**	34,883
Consolidated services and subcontracting expense	**229,176**	212,574
General service income	**280**	1,025
General service expense	**19,375**	14,625
Associates of Hon Hai		
Sales of goods	**1,058,031**	1,220,060
Purchase of goods	**685,016**	688,625
Purchase of property, plant and equipment	**2,550**	3,390
Sales of property, plant and equipment	**17**	658
Lease income – real properties	**137**	200
Lease income – non-real properties	**–**	13
Lease expense – real properties	**13**	14
Lease expense – non-real properties	**13**	50
Subcontracting income	**9,322**	9,365
Consolidated services and subcontracting expense	**6,127**	13,965
General service income	**126**	4
General service expense	**111**	4

39. 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:

	2018 US$'000	2017 US$'000
Trade receivables:		
Hon Hai	**1,412**	46,222
Subsidiaries of Hon Hai	**56,747**	194,215
Associates of Hon Hai	**70,783**	286,934
	128,942	527,371
Other receivables:		
Subsidiaries of Hon Hai	**204**	258
Associates of Hon Hai	**30**	691
	234	949
	129,176	528,320
Trade payables:		
Hon Hai	**2,056**	2,960
Subsidiaries of Hon Hai	**292,639**	372,786
Associates of Hon Hai	**143,770**	274,454
	438,465	650,200
Other payables:		
Hon Hai	**1,360**	144
Subsidiaries of Hon Hai	**13,765**	38,496
Associates of Hon Hai	**441**	1,355
	15,566	39,995
	454,031	690,195

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

39. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

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

	2018 US$'000	2017 US$'000
Short-term benefits	3,336	3,918
Share-based payments	2,773	1,936
	6,109	5,854

(d) During the year, the Group enter into the following transactions with associates (2017: associates and a joint venture):

	2018 US$'000	2017 US$'000
Sales of goods	2,509	49,491
Purchase of goods	144,356	266,810
Other income	25,565	23,103
Other expense	522	45

The amounts due from associates were US$8,039,000 (2017: the amounts due to associates and a joint venture were US$83,967,000), which were included in other receivables as at 31 December 2018.

40. 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 2018 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.

40. RETIREMENT BENEFITS PLANS *(Continued)*

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	**1.60%–2.36%**	1.39%–2.98%
Expected rate of salary increases	**2.00%–4.00%**	3.00%–9.00%

The actuarial valuations showed that the market value of plan assets was US$6,758,000 (2017: US$6,654,000) and that the actuarial value of these assets represented 121% (2017: 120%) of the benefits that had accrued to members.

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.

41. 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.

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

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

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

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

Currently, no options have been granted under the Option Scheme. No share option is exercisable as at 31 December 2018 and 2017.

No expense in relation to the share options granted by the Company was recognised by the Group for the years ended 31 December 2018 and 2017.

(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 new 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 22 November 2017, the Company offered 118,595,820 ordinary shares to certain beneficiaries pursuant to the Share Scheme, of which 114,343,918 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. 106,053,805 ordinary shares were issued on 22 November 2017 and 12,542,015 ordinary shares were purchased by the trustee of the Share Scheme from the stock market in November 2017.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the board of directors of the Company) on 28 November 2017, the Company offered 2,171,795 ordinary shares to certain beneficiaries pursuant to the Share Scheme without lock-up periods. No consideration was payable on the grant of the shares. 2,171,795 ordinary shares were issued on 28 November 2017.

Pursuant to the approval of the board of directors of the Company on 15 November 2018, the Company offered 146,963,583 ordinary shares to certain beneficiaries pursuant to the Share Scheme, of which 143,711,681 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. 120,594,615 ordinary shares were issued on 15 November 2018 and 26,368,968 ordinary shares were purchased by the trustee of the Share Scheme from the stock market in November 2018.

The Group recognised total expense of US$15,632,000 (2017: US$58,393,000) for the year ended 31 December 2018 in relation to the ordinary shares awarded by the Company under the Share Scheme.

42. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2018 and 2017:

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		
				2018	2017	2018	2017	
Chiun Mai Communication Systems, Inc.	Limited company	Taiwan	NT$1,500,000,000	–	–	87.06%	87.06%	Design and manufacture of handsets
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
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$184,720,000	–	–	100%	100%	Manufacture of handsets
S&B Industry, Inc.	Corporation	USA	US$31,817,356	–	–	100%	100%	Repair services
Success World Holdings Limited	Limited company	Hong Kong	HK$1,049,044,500	100%	100%	–	–	Investment holding
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	RMB400,000,000	–	–	100%	100%	Research and development; sales
Rising Stars Mobile India Private Limited	Limited company	India	INR16,659,449,900	–	–	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
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

42. 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 Directly		Indirectly		Principal activities
				2018	2017	**2018**	2017	
富智康(成都)智能科技有限公司 (FIH (Chengdu) Intelligent Technology Co., Ltd.) (formerly known as 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%**	100%	Distribution of handsets
益富可視精密工業(深圳)有限公司 (InFocus Precision Industry (Shenzhen) Co., Ltd.*)	Limited company	PRC	RMB200,797,664.12	**–**	–	**100%**	100%	Trading of handsets
Fushan Technology (Vietnam) Limited Liability Company	Limited company	Vietnam	VND682,440,000,000	**–**	–	**100%**	100%	Manufacture of handset
FIH Singapore Trading Pte. Ltd.	Limited company	Singapore	US$1	**–**	–	**100%**	100%	Trading of handsets
天恩仕(北京)貿易有限公司	Wholly foreign owned enterprise	PRC	RMB4,655,000	**–**	–	**100%**	100%	Distribution of handsets

* *for identification purposes only*

All the principal subsidiaries operate predominantly in their respective place of incorporation/establishment unless specified otherwise under the heading "principal activities".

No debt security has been issued by any of the subsidiaries at any time during the year or is outstanding at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other insignificant subsidiaries which are mainly inactive or engaged in investment holding would, in the opinion of the directors, result in particulars of excessive length.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 **US$'000**	2017 US$'000
ASSETS		
Investments in subsidiaries	**1,482,697**	1,482,697
Other receivables	**4,527**	51
Prepayments	**93**	93
Amounts due from subsidiaries	**1,753,453**	1,942,226
Bank balances and cash	**2,535**	2,527
	3,243,305	3,427,594
LIABILITIES		
Bank borrowings	**868,300**	672,600
Other payables	**1,215**	448
Amounts due to subsidiaries	**225,694**	132,336
	1,095,209	805,384
NET ASSETS	**2,148,096**	2,622,210
CAPITAL AND RESERVES		
Share capital	**328,563**	323,739
Share premium	**1,203,407**	1,195,623
Reserves	**616,126**	1,102,848
TOTAL EQUITY	**2,148,096**	2,622,210

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$1,819,533,000 (2017: US$2,298,471,000), consisted of share premium of approximately US$1,203,407,000 (2017: US$1,195,623,000) and retained profits of approximately US$616,126,000 (2017: US$1,102,848,000).

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

Movement in reserves

	Share premium	Share compensation reserve	Retained profits	Total
	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2017	1,166,951	(21,537)	903,069	2,048,483
Profit for the year	–	–	341,779	341,779
Issue of ordinary shares under Share Scheme	28,672	(33,001)	–	(4,329)
Payment made for equity-settled share-based payments	–	(3,855)	–	(3,855)
Recognition of equity-settled share-based payments	–	58,393	–	58,393
Dividends recognised as distribution	–	–	(142,000)	(142,000)
Balance at 31 December 2017	**1,195,623**	**–**	**1,102,848**	**2,298,471**
Loss for the year	**–**	**–**	**(486,722)**	**(486,722)**
Issue of ordinary shares under Share Scheme	**7,784**	**(12,608)**	**–**	**(4,824)**
Payment made for equity-settled share-based payments	**–**	**(3,024)**	**–**	**(3,024)**
Recognition of equity-settled share-based payments	**–**	**15,632**	**–**	**15,632**
Balance at 31 December 2018	**1,203,407**	**–**	**616,126**	**1,819,533**

FINANCIAL SUMMARY

	For the year ended 31 December				
	2014 (US$'million)	2015 (US$'million)	2016 (US$'million)	2017 (US$'million)	**2018 (US$'million)**
Results					
Revenue	6,829.89	7,450.99	6,233.08	12,080.11	**14,929.90**
Profit (loss) from operations	278.59	295.94	217.85	(484.33)	**(812.39)**
Interest expenses	(10.44)	(5.78)	(0.94)	(11.23)	**(27.71)**
Profit (loss) before tax	268.15	290.16	216.91	(495.56)	**(840.10)**
Income tax expense	(98.84)	(61.50)	(80.70)	(29.83)	**(17.01)**
Profit (loss) after tax and before non-controlling interests	169.31	228.66	136.21	(525.39)	**(857.11)**
Non-controlling interests	0.13	0.41	2.11	(0.10)	**(0.01)**
Net profit (loss) for the year	169.44	229.07	138.32	(525.49)	**(857.12)**

	As at 31 December				
	2014 (US$'million)	2015 (US$'million)	2016 (US$'million)	2017 (US$'million)	**2018 (US$'million)**
			(restated)		
Assets and liabilities					
Total assets	6,822.52	5,805.01	6,962.65	8,787.68	**8,904.36**
Total liabilities	(2,892.65)	(2,049.60)	(3,391.90)	(5,607.96)	**(6,754.08)**
Non-controlling interests	(9.15)	(8.47)	(6.12)	(6.61)	**(5.94)**
Capital and reserves	3,920.72	3,746.94	3,564.63	3,173.11	**2,144.34**

This corporate governance report is issued as of 6 March 2019. The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2018 to 31 December 2018 (the "year under review").

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, Mr. TONG Wen-hsin ("Mr. Tong"), 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 arrangement by appointing Mr. CHIH Yu Yang ("Mr. Chih"), the current chief executive officer, to act as the acting chairman with effect from 1 January 2017. Mr. Chih has been the Company's executive director and chief executive officer since 28 August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive and in-depth knowledge and experience in both the Company and the industry. The Board believes that this arrangement not only is crucial to the continuation in the Group's implementation of business plans and formulation of business strategies, but also serves to avoid unnecessary speculation, confusion and instability that may be caused to the Group's shareholders, investors, customers, suppliers and business partners worldwide, thereby allowing the Company to have sufficient time for the selection and appointment of the replacement chairman of the Company. During the year under review, the Company had continued its search for the right candidate to fill the position of chairman of the Company and had considered the suitability and appropriateness of certain distinguished candidates. However, the Company was not able to identify the right candidate and it will continue its search efforts. Although the arrangement deviates from the relevant code provision, the Board considers that the arrangement will not impair the balance of power and authority between the Board and the management of the Company as three out of the six Board members are the independent non-executive directors and the Board meets regularly to consider major matters affecting the operations of the Group and all directors of the Company 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 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 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 (please see below for the latest amendments to the Manual effected on 12 December 2018). 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.

CORPORATE GOVERNANCE REPORT

As an enhancement of the Company's corporate governance practices, in particular, the Board (with the respective recommendations from the Company's corporate governance committee, audit committee, remuneration committee and/or nomination committee (as appropriate)) adopted on 29 June 2018 the revised delegation of authority of the Board (for details, please refer to the "Other Information — Corporate Governance" section of the Company's 2018 interim report), on 2 November 2018 the dividend policy, and on 12 December 2018 (among other things) the revised Manual together with the documents contemplated thereby, namely the revised list of matters reserved for the Board, the revised terms of reference of the audit committee, the revised terms of reference of the remuneration committee, the revised terms of reference of the nomination committee, the revised terms of reference of the corporate governance committee, the revised procedures for shareholders to propose candidates for election as a director of the Company, the revised shareholders communication policy, the revised memorandum on shareholder rights, the revised board diversity policy, the revised Nomination Policy (as defined below) and the revised procedures for the handling and dissemination of inside information and handling enquiries from authorities.

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.

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

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

Executive Directors

CHIH Yu Yang *(acting chairman, chief executive officer and chairman of the corporate governance committee)*
WANG Chien Ho
KUO Wen-Yi *(executive director and, in place of HUANG Chin Hsien, member of the corporate governance committee effective 29 June 2018)*

Independent Non-executive Directors

LAU Siu Ki *(chairman of the audit committee, remuneration committee and nomination committee respectively)*
Daniel Joseph MEHAN *(member of the audit committee, remuneration committee and nomination committee respectively)*
TAO Yun Chih *(member of the audit committee, remuneration committee and nomination committee respectively)*

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 the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2018 annual report incorporating this report).

In accordance with the Articles, any director, appointed to fill a casual vacancy or as an addition to the then existing Board, shall hold office only until the first general meeting after his/her appointment and shall then be eligible for re-election at such general meeting.

In accordance with 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 an annual general meeting at least once every three years. The directors to retire in the relevant year will be those who have been longest in office since their last re-election.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. The balanced Board composition (comprising three independent non-executive directors out of a total of six Board members) also ensures that strong independence exists across the Board. The biographies of the directors as at the date of this report as set out in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2018 annual report incorporating this report) demonstrate a diversity of skills, expertise, experience, qualifications and other perspectives appropriate to the requirements of the Company's business.

The Board meets regularly and Board meetings are held at least four times a year to discuss principally the overall strategies as well as the operational and financial performance of the Group, and (in relation to the first and third regular Board meetings) to review and approve the Company's final results and interim results, respectively. 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. During the year under review, nine Board meetings were held. The meeting attendance of each Board member is set out in the section headed "Board, Committees and General Meetings" below.

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 12 December 2018, Mr. Chih (the Company's acting chairman) held a meeting with the independent non-executive directors without the presence of the other executive directors.

NON-EXECUTIVE DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors, namely Mr. LAU Siu Ki ("Mr. Lau"), Dr. Daniel Joseph MEHAN ("Dr. Mehan") and Mr. TAO Yun Chih ("Mr. Tao"), for a term of three years commencing from 1 December 2016, 24 July 2016 and 9 March 2017, respectively, subject to re-election at each annual general meeting of the Company in accordance with the Articles.

During the year under review, the non-executive directors (including the independent non-executive directors) provided the Company with the benefit of a wide range of their skills, expertise and varied backgrounds and qualifications and brought independent judgement on issues of strategic direction, policy, development and performance through their contributions at Board meetings and (as appropriate) committee meetings.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year under review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received written annual confirmation of independence from the three independent non-executive directors, Mr. Lau, Dr. Mehan and Mr. Tao, in accordance with Rule 3.13 of the Listing Rules.

Mr. Lau and Dr. Mehan have served the Board for more than nine years, and subject to retirement and re-election under the Articles as mentioned above, the current appointment terms of Mr. Lau and Dr. Mehan with the Company as independent non-executive directors will end on 30 November 2019 and 23 July 2019, respectively. On the basis of their respective professional background, skills and experience as well as their diversity of perspectives appropriate to the requirements of the Company's business, Mr. Lau and Dr. Mehan have accumulated in-depth understanding of the Group's business operations and affairs, and have been giving independent guidance, views and comments to the Company over the past years. For the year under review, Mr. Lau and Dr. Mehan have provided their respective written annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. They have also confirmed no relationship with any directors, senior management members, or substantial or controlling shareholders of the Company. Each of Mr. Lau and Dr. Mehan has not held any management role or position within the Group, and has not been involved in the daily operations and management of the Group during the years that he has been a director, and has clearly demonstrated to the Company his willingness to exercise independent judgement and to provide objective views to the Company.

In this respect, the nomination committee of the Company re-assessed the independence of all the independent non-executive directors in respect of the year under review, and was satisfied (among other things) that each of Mr. Lau, Dr. Mehan and Mr. Tao was and would be independent in accordance with Rule 3.13 of the Listing Rules. On the basis of the recommendation from the nomination committee and up to the date of this report, the Board (after taking into account the above factors) is not aware of the occurrence of any event which would cause it to believe that the independence of any of the independent non-executive directors has been impaired. In relation to Mr. Lau and Dr. Mehan who have served the Board for more than nine years, the Board is not aware of any evidence that the length of tenure of Mr. Lau and Dr. Mehan has had any adverse impact on their independence, nor any circumstance that might influence Mr. Lau and Dr. Mehan in effectively exercising their judgement independently, in either case in their capacity as independent non-executive directors. Accordingly, the Board has concluded that Mr. Lau and Dr. Mehan have remained and would continue to remain independent in the context of the Listing Rules.

As disclosed in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2018 annual report incorporating this report, as at the date of this report, Mr. Lau holds the position of independent non-executive director in five other companies which shares are listed on the Stock Exchange. The Board and the nomination committee considered that Mr. Lau has, throughout the period during which he has been acting as an independent non-executive director of the Company, demonstrated that he has been, and will continue to be, able to devote sufficient time to the Board after having taken into account a variety of considerations, including without limitation the following: (i) Mr. Lau has a proven track record of ability and commitment to manage and allocate sufficient time for matters relating to the Group from time to time handled by the Board and/or the Board committees chaired by Mr. Lau (the "Group Matters"), as evidenced by his full attendance at a total of nine meetings of the Board (out of nine in the year under review), four meetings of the audit committee (out of four in the year under review), three meetings of the nomination committee (out of three in the year under review) and two meetings of the remuneration committee (out of two in the year under review); and (ii) since his appointment as a director of the Company in December 2004, Mr. Lau has demonstrated outstanding time management skills with the help of sufficient staff support. Further, the Board is of the view that Mr. Lau's directorship experiences in other companies listed on the Stock Exchange is beneficial in equipping him with accumulative knowledge, familiarity and experience on matters such as the latest developments and trends in directors' duties, Listing Rules requirements, regulatory focus and common risks and limitations in management and compliance. The Board will continue to maintain regular communications with Mr. Lau and re-assess Mr. Lau's ability to devote sufficient time to the Group Matters and discussions and deliberations at the Board level on an on-going basis.

The Company's independent non-executive directors comprise individuals of a diverse range of ethnicity as well as cultural and educational background, coming from Hong Kong, Taiwan and the U.S. and holding academic qualifications from these jurisdictions. They are also equipped with a diverse range of skills, knowledge and experience in different industry and professional fields ranging from corporate governance, corporate finance, financial advisory and management, accounting and auditing, information systems, cyber security, business management, marketing, consultancy to start-up, growth and management. In addition, their ages diversely range from 44 to 74. For further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2018 annual report incorporating this report.

COMPANY SECRETARY

Ms. Vanessa WONG Kin Yan has been the company secretary of the Company since June 2017. Ms. Wong is a full-time employee of the Company and has been supporting the Board (among other things) for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and timely preparation and dissemination to directors comprehensive Board meeting agendas and papers. During the year under review, Ms. Wong undertook over fifteen hours of relevant professional training to update her skills and knowledge.

DIRECTORS' 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 expense.

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 under review, 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.

As at the date of this report, according to the records kept by the Company, the directors attended the following continuous professional development activities during the year under review:

Name of director	Type(s) of continuous professional development activities
CHIH Yu Yang	A, B
WANG Chien Ho	A, B
KUO Wen-Yi (appointed on 29 June 2018)	A, B
HUANG Chin Hsien (resigned on 29 June 2018)	A, B
YU Mingjen (resigned on 4 May 2018)	A, B
LUO Zhongsheng (resigned on 2 November 2018)	A, B
LAU Siu Ki	A, B
Daniel Joseph MEHAN	A, B
TAO Yun Chih	A, B

A: Attending briefing(s) and/or training session(s)

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

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 of 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
TAO Yun Chih

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 enterprise risk management systems and provide advice and comments to the Board. It also makes recommendations on the appointment, re-appointment and removal of external auditor, and approves the remuneration and terms of engagement of the external auditor. It also reviews and monitors the external auditor's independence and objectivity as well as the effectiveness of the audit process. Please see the section headed "Accountability and Audit" below for more details.

In particular, the Company has complied with Rule 3.21 of the Listing Rules, which requires that at least one of the members of the audit committee (which must comprise a minimum of three members with non-executive directors only and must be chaired by an independent non-executive director) is an independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The audit committee shall meet at least twice a year. Also, at least once a year the audit committee shall meet with the external auditor without any members of management of the Company present. During the year under review, the audit committee held two meetings with the external auditor and also another meeting with the external auditor without the presence of any members of management of the Company. Moreover, four audit committee meetings were held during the year under review and the meeting attendance of each member of the audit committee is set out in the section headed "Board, Committees and General Meetings" below. In addition to the committee meetings, the audit committee also dealt with matters twice by way of circulation and signing of written resolutions during the year under review. In particular, the committee meetings and written resolutions served (among other things) 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 auditor's 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, to review the revised terms of reference of the audit committee, to review the dividend policy as well as to make recommendations to the Board on the relevant matters.

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.

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 of 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
TAO Yun Chih

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 (as necessary). During the year under review, two remuneration committee meetings were held and the meeting attendance of each member of the remuneration committee is set out in the section headed "Board, Committees and General Meetings" below. In addition to the committee meetings, the remuneration committee also dealt with matters twice by way of circulation and signing of written resolutions during the year under review. In particular, the committee meetings and written resolutions served (among other things) to review the 2018 share grant proposal under the Existing Share Scheme, the annual expenses allowances to executive directors, the renewal of the term of appointment of one director, the remuneration of the directors and senior management including the remuneration of one new director and the terms of his letter of appointment, to review the revised terms of reference of the remuneration committee as well as to make recommendations to the Board on the relevant matters.

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 paid/payable to the directors and senior management of the Company during the year under review are set out in notes 8 and 9 to the consolidated financial statements and "Report of the Directors" above, respectively, both forming part of the Company's 2018 annual report incorporating this report.

NOMINATION COMMITTEE

The Company has established and maintained a nomination committee with written terms of reference together with the nomination policy for directorship, formerly known as the nomination procedures and process and criteria to select and recommend candidates for directorship (the "Nomination Policy") as well as the board diversity policy (the "Board Diversity Policy") by reference to the code provisions of the CG Code. The terms of reference of 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
TAO Yun Chih

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 Policy and the Board Diversity Policy.

The Nomination Policy supplements the terms of reference of the nomination committee, and contains provisions setting out (among other things) the process for nomination of directorship candidates by a director or shareholder of the Company, the information collection and candidate selection process of the nomination committee, criteria which the nomination committee would consider and details on the nomination procedures for appointment and re-appointment of director(s) of the Company. For details about the procedures for the Company's shareholders to propose candidates for election as a director of the Company, please see such procedures accessible on the website of the Company.

In accordance with 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 operations and environment as well as the industry in which the Company operates) 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 perspectives within the Board and the candidates' potential contributions thereto. The Company has always recognised gender diversity as one important aspect of diversity, and the Board had previously comprised of female directors (Ms. GOU Hsiao Ling from December 2004 to January 2012, and Ms. LEE Kuo Yu from May 2013 to May 2016). The directorship candidate nomination and selection process (coupled with criteria) of the nomination committee is without gender bias, being based principally on merits and assessment of candidates against the said measurable objectives (comprising gender as only one of the factors) with due regard for the benefits of the appropriate diversity of perspectives within the Board and also the candidates' potential contributions thereto. It follows that the nomination committee's selection and (if thought fit) nomination of female directorship candidates would mainly depend on the then available pool of female directorship candidates possessing the requisite

professional, cultural and educational background as well as professional skills, experience and knowledge that are commensurate with the needs of the Company, etc. when being assessed on merits as well as against the said measurable objectives. Despite the recent limited availability of female directorship candidates possessing the requisite industry experience in the business fields in which the Company is principally engaged, the Company will continue to give due regard to the different aspects of diversity (including gender diversity) when considering potential candidates for directorship in accordance with the Board Diversity Policy.

The nomination committee shall meet at least once a year (as necessary). During the year under review, three nomination committee meetings were held and the meeting attendance of each member of the nomination committee is set out in the section headed "Board, Committees and General Meetings" below. In addition to the committee meetings, the nomination committee also dealt with matters twice by way of circulation and signing of written resolutions during the year under review. In particular, the committee meetings and written resolutions served (among other things) to consider the re-election of three directors and the appointment of a new director, to assess the independence of the independent non-executive directors, to review the structure, size and composition of the Board, to review the revised terms of reference of the nomination committee, the revised Nomination Policy and the revised Board Diversity Policy as well as to make recommendations to the Board on the relevant matters.

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.

During the year under review, Dr. KUO Wen-Yi ("Dr. Kuo") was appointed as an executive director of the Company with effect from 29 June 2018 for a term of three years ending on 28 June 2021 (subject to retirement and re-election under the Articles), and Mr. Chih was re-appointed by the Board on 29 June 2018 as the chief executive officer and an executive director of the Company for a term of three years ending on 27 August 2021 (subject to retirement and re-election under the Articles). In this respect, the work performed by the nomination committee is summarised as follows:

- In anticipation of the resignation of Mr. HUANG Chin Hsien ("Mr. Huang") as an executive director of the Company, Dr. Kuo was nominated to be appointed as an executive director of the Company in place of Mr. Huang with effect from 29 June 2018. Dr. Kuo was nominated to be appointed to fill a casual vacancy to the Board in accordance with Article 95 of the Articles. When considering the nomination of Dr. Kuo as an executive director of the Company, the nomination committee obtained and reviewed the relevant information and documents from Dr. Kuo (including without limitation his curriculum vitae, information on academic and professional qualifications, work experience, and employment history) in accordance with the relevant provisions of the nomination procedures and process and criteria to select and recommend candidates for directorship of the Company (which have been amended and adopted by the Board to become the Nomination Policy with effect from 12 December 2018) as well as the then existing Board Diversity Policy (which has been amended and adopted by the Board with effect from 12 December 2018). Following the process set out in the said nomination procedures and process and criteria, a meeting of the nomination committee was convened, during which the nomination committee assessed (among other things): (i) Dr. Kuo's qualifications, skills, knowledge, ability, experience and potential time commitment and attention to perform director's duties; (ii) aspects such as personal ethics, integrity and reputation of Dr. Kuo, which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business; and (iii) provisions of the version of the Board Diversity Policy in effect at the relevant time. Following such meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Dr. Kuo as a suitably qualified candidate for appointment as an executive director of the Company.

- When considering the proposed renewal of the letter of appointment of Mr. Chih as the chief executive officer and an executive director of the Company, the nomination committee focused on the extensive and in-depth knowledge and experience of Mr. Chih in both the Company and the industry, as accumulated by Mr. Chih as the Company's executive director for more than nine years, as well as other factors set out at the beginning of this report regarding the code provision contained in Paragraph A.2.1 of the CG Code. Following the aforementioned meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Mr. Chih for re-appointment as the chief executive officer and an executive director of the Company.

During the year under review and in accordance with the Board Diversity Policy, in the process of assessing candidates for the appointment/re-appointment of directors of the Company, the nomination committee considered the said measurable objectives. In relation to the nomination of Dr. Kuo as an executive director of the Company, the selection of Dr. Kuo as the Board candidate was made on a merit basis with reference to the Company's business and the aforementioned perspectives of diversity. In particular, in making a recommendation to the Board proposing Dr. Kuo as a candidate for appointment as an executive director of the Company, the nomination committee noted Dr. Kuo's Chinese-American background and educational and business achievements as well as his extensive professional experience in wireless communication product research and development, international business development, startup business and corporate management.

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 now consists of two executive directors. The members are:

CHIH Yu Yang *(chairman)*
KUO Wen-Yi (appointed on 29 June 2018 in place of HUANG Chin Hsien who resigned on 29 June 2018)

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 (as necessary). During the year under review, one corporate governance committee meeting was held and the meeting attendance of each member of the corporate governance committee is set out in the section headed "Board, Committees and General Meetings" below. In addition to the committee meetings, the corporate governance committee also dealt with matters once by way of circulation and signing of written resolutions during the year under review. In particular, the committee meetings and written resolutions served (among other things) to review the revised delegation of authority of the Board, and the revised Manual together with the documents contemplated thereby, namely (among others) the revised shareholders communication policy, the revised terms of reference of corporate governance committee, the revised list of matters reserved for the Board, the revised procedures for shareholders to propose candidates for election as a director of the Company, the revised memorandum on shareholder rights, the revised procedures for the handling and dissemination of inside information and handling enquiries from authorities, the revised Board Diversity Policy and the revised Nomination Policy as well as to make recommendations to the Board on the relevant matters.

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.

BOARD, COMMITTEES AND GENERAL MEETINGS

The individual attendance records of each director (represented in the following manner: number of meeting(s) attended by each director/total number of the corresponding meeting(s) held during such director's appointment term) at the meetings of the Board, audit committee, remuneration committee, nomination committee and corporate governance committee as well as general meeting of the Company during the year under review are set out below:

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	Annual General Meeting *(Note 5)*
Executive Directors						
CHIH Yu Yang	8/9	N/A	N/A	N/A	1/1	1/1
WANG Chien Ho	9/9	N/A	N/A	N/A	N/A	1/1
KUO Wen-Yi *(Note 1)*	5/5	N/A	N/A	N/A	1/1	N/A
HUANG Chin Hsien *(Note 2)*	4/5	N/A	N/A	N/A	N/A	1/1
YU Mingjen *(Note 3)*	2/3	N/A	N/A	N/A	N/A	N/A
HUANG Chin Hsien as proxy for CHIH Yu Yang	1/9	–	–	–	–	–
Non-executive Director						
LUO Zhongsheng *(Note 4)*	6/7	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors						
LAU Siu Ki	9/9	4/4	2/2	3/3	N/A	1/1
Daniel Joseph MEHAN	9/9	4/4	2/2	3/3	N/A	1/1
TAO Yun Chih	9/9	4/4	2/2	3/3	N/A	1/1

Notes:

1. Dr. Kuo was appointed as an executive director and a member of the corporate governance committee of the Company with effect from 29 June 2018.

2. Mr. Huang resigned as an executive director and ceased to act as a member of the corporate governance committee of the Company with effect from 29 June 2018.

3. Mr. YU Mingjen resigned as an executive director and ceased to act as a member of the corporate governance committee of the Company with effect from 4 May 2018.

4. Dr. LUO Zhongsheng resigned as a non-executive director of the Company with effect from 2 November 2018.

5. The directors participated in the annual general meeting held on 18 May 2018 (the "2018 AGM") by means of telephone conference facility, except that Mr. Huang, Mr. Lau and Mr. Tao attended the 2018 AGM in person.

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 under review, the auditor's remuneration incurred by the Company was US$1,204,000, and US$2,077,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services and US$128,000 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 under review, the directors have selected suitable accounting policies and have applied them in a consistent manner, have made reasonable judgements and estimates, and have prepared the financial statements on a going-concern basis.

The Board has overall responsibility for the Group's system of internal controls and enterprise risk management ("ERM") and ensuring its effectiveness, and in particular, 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 adequate and effective system of internal controls and ERM is in place within the Group.

In particular, the Board oversees the Group's management (comprising, in the context of the Group's ERM and internal controls, the Company's chairman/acting chairman, chief executive officer and chief financial officer, and the Group's business head of the Group's major factories as well as the functional head and site head of the U.S., who collectively as a body is designated for the purpose of assisting the Board with the Group's overall policies on ERM and internal controls (the "Management")) in (among other things) the design, implementation and monitoring of the internal control and ERM 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, and reasonable (but not absolute) assurance can be provided against material misstatement or loss and also assurance can be provided on the effectiveness and adequacy of operations, reliability of financial reporting and operational information, safeguarding of the Group's assets and compliance with the Group's policies, plans and procedures as well as applicable laws and regulations.

The Board regularly reviews the design and operational adequacy and continuing effectiveness of the internal control and ERM system through the audit committee (for the time being, comprising all the independent non-executive directors).

The Board (through its audit committee) oversees and evaluates the Group's internal control and ERM system on an ongoing basis. The audit committee, in discharging the Board's responsibility of overseeing and evaluating the effectiveness and adequacy of the Group's system of internal controls and ERM 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 overall adequacy, effectiveness and compliance, including compliance with the Group's policies, plans and procedures. The Group's internal audit function (as designated by the Board) has unrestricted access to all information, books, people and physical properties, thereby allowing it to review all aspects of the internal controls, ERM and governance processes within the Group. This includes audit of financial and operational controls of all legal entities, business 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 in the first quarter of every year based on a risk assessment of each operating and functional unit as well as its materiality in a Group context. Audit findings, enhancements and recommendations are communicated to the management of the responsible unit after each internal audit. The management of the responsible unit is responsible for evaluating such audit findings, enhancements 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 regular basis and monitored by the Management. Escalation to the senior management or even the executive directors for material deficiencies will be made, in order that corrective actions can be taken by the management of the responsible unit in a timely manner. A summary of major findings is reported semi-annually by the Group's internal audit function 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 Group's staff performing accounting, internal audit and financial reporting functions 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 ERM 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 and the code of ethics administering appropriate and prohibited individual behaviour within the Group are implemented and apply to employees by way of policies, rules and principles. Besides, the Group has established its whistle-blowing policy and the related procedures which apply to all members of staff and suppliers. Complaints can be raised in relation to fraudulent acts, unethical acts or improper business conduct through established hotlines and other channels. Whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice. All complaints will be handled confidentially, fairly and professionally by the Group's chief internal auditor for further investigation and appropriate follow-up actions.

Risk management is one of the fundamental parts 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, and safeguarding the interests of shareholders and other key stakeholders such as customers, creditors and employees. Existing and emerging risks are identified, analysed and managed via the ERM system. The system is operated and monitored by the Group's ERM 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 ERM processes (e.g. to establish ERM strategies and objectives, and to maintain risk assessment standards and categories). Risk assessment results generated and contributed by the underlying business unit controllers/risk owners will be collected, reviewed, assessed and consolidated twice a year by the Company's risk management division led by the Group's chief internal auditor. Risk assessment reports (as prepared on the basis of such risk assessment results) will be submitted on a regular basis to the ERM Team for review to ensure the adequacy of action plans and appropriate business processes or control systems to manage these risks (in particular, the areas which were assessed as high risk). The Company's risk management division will consolidate all the risk assessment results in a Group-level risk assessment report and then submit the same to the Company's chief financial officer on an annual basis. Such Group-level risk assessment report provides for (among other things) the ERM framework and model, the annual ERM analyses (with the relevant risk scores, highlighting the major risk areas and corresponding enhancements, if any), and the planned ERM work for next year. The Company's chief financial officer will represent the Management and report the operational adequacy and continuing effectiveness of the internal control and ERM system (including the relevant ERM matters) to the audit committee on an annual basis.

The principal risks that are covered by the ERM system are strategic planning, technical, budgetary control, performance measurement, and 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, industrial safety as well as sales and collection management.

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 semi-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 (for the time being, comprising all the independent non-executive directors) 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 properly implemented and operated and are adequate and effective to ensure that such transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements. The audit committee will review this accordingly. For details, please refer to the "Internal Control" section of the Company's announcement on continuing connected transactions dated 8 March 2018. In particular, in order to assist the independent non-executive directors (for the time being, being all the members of the audit committee) in performing their corresponding duties and functions under the Listing Rules and also having an

oversight over the ongoing monitoring in respect of the Group's continuing connected transactions, the Company's chief financial officer and the Group's chief internal auditor jointly issue, on a semi-annual basis, a report to the independent non-executive directors (copied to the corporate governance committee) on the internal controls applicable to such continuing connected transactions, setting out (among other things) the review and findings relating to the assessment of the appropriateness and effectiveness of the relevant internal control procedures, and the enhancements on the relevant internal control procedures (if any). In this respect, sufficient information regarding such continuing connected transactions and related pricing policies and internal control procedures has been provided to the independent non-executive directors, who (during the review process for the period under review) have confirmed that they have not encountered any problems nor difficulties and have been given ample opportunities to pose questions, request additional information and/or make suggestions in respect of any such continuing connected transactions and related pricing policies and internal control procedures.

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 ERM system as well as the related reports and disclosures made by the Group's internal audit function and other relevant stakeholders for the year under review, has provided a confirmation to the audit committee on the adequacy and effectiveness of the system.

Based on the results of evaluations and representations for the year under review 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 ERM has been in place throughout the year under review, for safeguarding the interests of shareholders and other key stakeholders such as customers, creditors and employees.

The procedures for the handling and dissemination of inside information and handling enquiries from authorities (forming part of the Manual as amended by the Board on 12 December 2018) 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/acting chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess any disclosure need in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO in respect of the potential inside information.

(b) the handling of enquiries from competent authorities (including the Stock Exchange and the Hong Kong Securities and Futures Commission), who may make enquiries with the Company (primarily its company secretary) on (among other things) unusual movements in the price or trading volume of the Company's shares under Rule 13.10 of the Listing Rules or media news or compliance with the Listing Rules, the SFO or other applicable laws and regulations, and such enquiries will be handled through the designated core team and (as appropriate) the chairman/acting 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 under review.

SHAREHOLDER RELATIONS

The Company has formulated and maintained the shareholders communication policy (forming part of the Manual as amended by the Board on 12 December 2018) 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 under review, the 2018 AGM was held on 18 May 2018. The meeting attendance of each director is set out in the section headed "Board, Committees and General Meetings" above.

At the 2018 AGM, the Company obtained its shareholders' approval of the agenda items set forth in the 2018 AGM notice attached to the Company's circular dated 10 April 2018.

SHAREHOLDERS' RIGHTS

Shareholders' Right to convene Extraordinary General Meeting

The Company has formulated and maintained the memorandum on shareholder rights (forming part of the Manual as amended by the Board on 12 December 2018) 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 twenty-one days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further twenty-one days, the requisitionist(s) himself/herself/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 three 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 him/her/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 in the section headed "Shareholder Relations" 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 (forming part of the Manual as amended by the Board on 12 December 2018), 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 (forming part of the Manual as amended by the Board on 12 December 2018) 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 (in hard copy form or in electronic form) 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 2.5 percent of the total voting rights of all the shareholders having as at the date of the requisition a relevant right to vote at the Company's general meetings; or (b) are no less than fifty shareholders who as at the date of the requisition have a relevant right to vote at the Company's general meetings.

- 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 other business to be dealt with at the relevant general meeting; (b) be authenticated by way of the signature(s) of all the requisitionist(s), which may be contained in one document or in several documents in like form; and (c) be deposited with the company secretary at the following address not less than six weeks before the relevant general meeting (in the case of a requisition requiring notice of a resolution) or not less than seven days before such general meeting (in the case of any other requisition):

  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

The expenses of the Company in complying with the written requisition need not be paid by the requisitionist(s) if the relevant general meeting is an annual general meeting of the Company, and the written requisition is received in time to enable the Company to send a copy thereof at the same time as it gives the notice of such annual general meeting; otherwise, the expenses of the Company in complying with the written requisition must be paid by the requisitionist(s), and the Company is not bound to comply with the written requisition unless there is deposited with or tendered to it, not later than seven days before the relevant general meeting, a sum reasonably sufficient to meet its expenses in doing so.