

FIH[®] 富智康[™]

FIH Mobile Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

2019 ANNUAL REPORT



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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

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802 West Bay Road

Grand Cayman, KY1-1205

Cayman Islands

HEAD OFFICE

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Anci District

Langfang City

Hebei Province

People’s Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Peninsula Tower

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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,

2019 was a year of increased saturation of the handset market, market shrinkage across certain geographies, factors leading to margin erosion pressure and a volatile global environment stemming from the ongoing China-U.S. trade war. In 2019, the Group has made a lot of fundamental improvement actions and business portfolio balancing effort and rigorously reviewed its business model and strategy across the Group's businesses and investments and effected various measures to increase the overall profitability, working capital control and the long-term sustainability of the Group by implementing a loss-cutting initiative and by reducing risks against gross margin erosion and cutting overheads and operating expenses to give the Group the ability to be more agile in its decision-making and operations.

These changes combined with other actions taken, while leading to a slight reduction in revenue, resulted in a substantial reduction of the overall loss incurred and improvement in the gross margin of the Group. The Group's change in the collaboration model with HMD global Oy (one of the Group's major customers), while leading to a decrease in sales brought by HMD's new direction, led to a significant reduction of the Group's gross loss contributed by this customer. The reduction in sales stemming from HMD was offset by the growth of the Group's sales to U.S. internet companies and other existing Chinese customers. The Group's cessation of its logistics and distribution business as of 1 January 2019 has also impacted the Group's gross profit and resulted in lost distribution income for the Group. However, selling expenses which were otherwise incurred to generate distribution income have been significantly reduced in 2019. Overall, the Group's gross margin turned profitable in the course of 2019. However, margin erosion pressure of system assembly and casing businesses will continue to persist and the Group has attempted and implemented various measures to mitigate the impact and foster long-term relationships with customers to improve P&L (Profit and Loss) performance.

The global market in 2019 has been sluggish and volatile due to the ongoing China-U.S. trade war and the global economic slowdown. As a result, the Group has been cautious in managing its investment portfolio. Despite this, the Group has continued to enhance its EMS (Electronics Manufacturing Services) businesses and explore new opportunities of 5G (the 5th generation mobile networks) related application and V2X (Vehicle-to-Everything) to reinforce the Group's dominant position in the mobile handset manufacturing industry and build up the internet and the mobile ecosystem through investments and M&A (Mergers and Acquisitions) opportunities and activities. The Group had further disposed of some investments, and also impaired a few investments which had less than ideal performance. The Group will continuously conduct analyses and will consider hedging the risk exposure should the need arise.

Global smart phone shipments have declined for three consecutive years due to a matured growth pattern, saturation in certain markets and lower than expected growth in others. Before the outbreak of the novel coronavirus (COVID-19), smart phone shipments are expected to be rebound starting from 2020, mainly due to the ambitious 5G plans in China and earlier than expected adoption in entry level 4G smart phones in emerging and developing countries, which will also lead to a continuous decline in feature phone shipments. In addition to rapid technology advancements and shifts in customer preference in the mobile phone industry, the recent geoeconomic risks will also have a significant influence on this market. Following a major push by all companies to shift production out of China to hedge against tariff risks, the Group will further leverage on its global footprints in India and Vietnam and other emerging markets to address this need. The Group has also continued to invest in 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, and the manufacturing facility in Vietnam. The Group will continue to enhance its overseas facilities to further respond to the developing global dynamics.

CHAIRMAN'S STATEMENT

Revenue from the continuing operations for the year 2019 was US\$14,379 million, which represents a decrease of US\$489 million or 3.3%, when compared with 2018 revenue of US\$14,868 million. Loss for the year 2019 attributable to owners of the Company from the continuing operations significantly decreased to US\$33 million, compared to the loss for 2018 of US\$679 million. Basic loss per share from the continuing operations for the year 2019 was US0.40 cent.

The global landscape has seen significant changes and the Group will continue to further enhance its ability to respond to these changes effectively, and will continue to invest in R&D (Research and Development) in 5G and other key areas in order to ramp up its ability to adapt to the continuously evolving "Internet + Industry" landscape and seize the opportunities created. Moreover, the Group will continue not to accept orders with poor margin in 2020 and enact additional measures to hedge against margin erosion pressure. The bottom-line performance of the Group has significantly improved in 2019 and we will continue to implement those measures in place in 2020.

I would like to sincerely thank the Group's entire staff for its teamwork and for its diligent effort to effectively respond to the challenges of 2019 and for its unwavering effort to grasp the opportunities created by the changing global and industry landscape in 2019. I would like to extend my appreciation to the support provided by our management, all staff, customers, shareholders, business partners and the board of directors to the management team 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

27 March 2020

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

CHIH Yu Yang (Mr.), Chinese (Taiwan) and aged 61, 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 Execustar International 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 40 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 60, 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 a subsidiary of the Company, namely 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only). Mr. Wang ceased to serve as a director of ShunSin Technology Holdings Limited, a limited liability company incorporated in the Cayman Islands and whose shares are listed on the Taiwan Stock Exchange Corporation, with effect from July 2018. He has over 33 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 54, 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 25 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

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

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 61, 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 36 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. He was appointed, with effect from 21 June 2019, as an independent non-executive director of IVD Medical Holding Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) commencing from 12 July 2019. 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. 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 China Medical & HealthCare Group Limited from 3 June 2004 to 6 December 2018, the shares of which company are listed on the Stock Exchange.

Dr. Daniel Joseph MEHAN (Mr.), American and aged 75, 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 46, 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 general manager of Circles Life Taiwan, which is a global telco start-up with headquarter in Singapore since 13 January 2020. He is also a 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 17 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 60, 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 29 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 55, 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 56, 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 32 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. 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 58, 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 30 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 2019 (the “current period”).

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the principal subsidiaries are set out in the consolidated financial statements on pages 160 and 161. The Group is principally engaged as a vertically integrated manufacturing services provider for the 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 pages 79 and 80.

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.

The outbreak of novel coronavirus (COVID-19) in Mainland China and the subsequent quarantine measures imposed by the Mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had some negative impacts on the operations of the Group, as a lot of the Group’s operations are located in Shenzhen, Langfang and Guiyang in Mainland China. The Group had to postpone its manufacturing since the end of the Chinese New Year Holiday in late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group had re-opened all of its factories in Mainland China stage by stage since 10 February 2020, but they are still not operating at normal capacity due to self-quarantine procedure, logistics, and travel restrictions. In light of the reduction in scale of the Group’s manufacturing activities after the current period, the Group has had to re-arrange the shipment without violating any customer contract terms. In addition, as the operations of some of the Group’s customers, suppliers, associates, joint ventures and investees are located in Mainland China, the outbreak of COVID-19 is expected to have a negative impact on these parties. Because of the quickly-evolving nature of COVID-19’s spread and evolution, the Company considers it is too early and difficult to predict with any precision what impact that outbreak might have on the Group’s performance for the six months ending 30 June 2020. The challenging conditions that the Group has faced since late 2017 have continued into 2020. The Group’s gross margins generally have also continued to come under pressure from competition. However, the Company has been working hard and doing everything that it reasonably can to maximise its performance through these challenging times. The Company will keep matters under close review as the first quarter of 2020 progresses, and will make further announcements, as necessary, to keep shareholders and potential investors informed.

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 may not be limited to, changes in general industry and ecosystem and macro-economic environment (such as intensifying trade wars and political conditions), development of the outbreak of COVID-19, changes in money markets (such as

REPORT OF THE DIRECTORS

interest rate hikes and volatility in foreign exchange rates), changes in capital markets, competition, shifts in customers' demand and preferences and propensity to spend, seasonality of sales, changes in sales and product mix, changes in commodity price, inflationary rate, shortage of components, technology advancement, and changes in market/legal/regulatory/government/fiscal and monetary policy/tax policy/tariffs (e.g. changes of custom duty rates, government's blacklisting, export controls and bans against the Group's major customer). In addition, new unpredictable 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 Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

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

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (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 services provider with business models 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 (including casings sold to customers and casings used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly etc., and supply chain services and solutions, 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 like smart speakers.

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

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 manufacturing facilities and operations, Research and Development ("R&D") centres and phone repair and refurbishment facilities located close to its customers across the Asia-Pacific region (e.g. China, India, Vietnam, Taiwan) and the America including Mexico to better facilitate their respective local needs and enable such customers to accelerate the launch of their products to market.

As the trade tension between U.S. and China escalated in 2019, one of the Group's key customers in China was coerced to terminate the relationship with one of its EMS partners as a consequence of the escalating U.S.-China trade war development, and the Group took immediate and necessary actions to support the customer and maintain good business relationship with this customer. In addition, with the Group's strong support in overseas market, another key customer's successful growth in its shipment in overseas market including India, Europe and other countries offset the adverse impacts

REPORT OF THE DIRECTORS

on such key customer arising from its competitor's refocus on the Chinese market. As the U.S.-China trade tensions heat up, some customers flocked to Vietnam, where the Group already has a large plant in Hanoi which allows the Group to serve the customers in the best manner and foster long-term business relationships.

In relation to the Group's continuous fostering and development of long-term relationships and partnerships with a diversity of customers during the current period, the Group entered into collaboration with a U.S.-based Internet customer in 2018 who is one of the most innovative Internet companies in the world to bring the most advanced AI (Artificial Intelligence) 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.

The Group's another customer, HMD global Oy ("HMD"), is headquartered in Espoo, Finland and is the home of Nokia phones. As manufacturer of Nokia-branded smart phones and feature phones, it is targeting worldwide mobile phone market with full price range. Sales to HMD are grouped under 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 responsible for IP (Intellectual Property) right management, product development, sales and marketing for the mobile devices and related services. For details, please see "Investments" section below.

As a whole, the Group's strategy and business model are to work with the customers from the initial concept design stage up until the end of the production process managing all aspects of sourcing, development and assembly and services of phone and provide a complete range of cost-competitive and vertically-integrated global supply chain solutions for its customers. This enables its customers to leverage on its supply chain solutions to meet their product requirements throughout the life cycle of their products. The Group secures front-end trends by working closely with supply chain and suppliers and creating win-win for both the Group and customers by developing practical solutions. After building long-term partnership with customers, the Group is able to communicate effectively with the customers and accelerate manufacturing whilst meeting specifications and quality requirements from customers. At the same time, the Group has been consistently putting effort on improving operation management and process and efficiency optimisation, research and development, streamlining production process to improve learning curves and yield, human resource management to deliver all projects in a timely manner. 2019 has been a challenging period for the handset industry generally due to various factors impacting the competitive landscape and factors leading to margin erosion pressure, while certain market has been shrinking in many geographies. There has been more than usual pressure on pricing coming from the largest players in the industry fighting against the recent trend in market share development and all of the Group's customers have been facing challenges of various kinds. The core business of one key customer is not in mobile phone sector and any change to the business strategy of this customer may affect the Group's sales to this customer. The Group will continue to explore opportunities in new projects, new products and new customer development on the solid foundation of existing products, customers. Confronting more diversified product lines and customer demands, the Group will deliberately enhance the core competence by means of optimising production process, magnifying efficiency, escalating automation, executing solid cost-control measure and cultivating talents.

Amongst the Group's five largest customers (including HMD) during the current period which accounted for approximately 90.02% 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, and the other two have been its customers for more than a year as well. These top five largest customers are the same as those for 2018. These major customers are not required to commit to certain minimum purchase value or volume from the Group over a period of time. In the current dynamic and competitive handset industry, innovation and enhanced user experience and product pricing and quality are

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paramount and loss of or changes in market position of any of these customers or their products may materially and adversely affect the Group's business, financial condition and results of operation, especially in view of the concentration of its sales to these customers. The Group's reliance on major customers means that the Group's performance is directly affected by the performance of these customers in a challenging handset industry and the Group pays attention to the change of market trend and lower any business risk associated with the excessive concentration of customers.

Given that the industry is dominated by consolidated significant players, and in cases where the Group developed new smaller customers, it would be difficult for the Group to develop new customers that have similar business scale as the Group's existing major customers and would to a certain extent affect the Group's bargaining power. Further, it takes time for the Group to gear up its production facilities to produce products and provide services that are customised for new customers. In cases where the Group switches to or adds new customers, it typically takes the Group approximately 2 to 10 months to customise the Group's production facilities depending on the complexity and sophistication of products and associated business models. The replacement/upgrade cycle of smart phone is prolonging in mature market such as America and Western Europe which is due to limited product and development innovation, smaller and narrowing gap between high-end and low-end models, the expectation of 5G era, etc. In emerging markets, while the penetration rate of smart phone is peaking up, the demand from replacing feature phones with smart phone decelerates. In light of the handset market saturation, the Group has intensified its focus on technology innovation and manufacturing efficiency to ensure user experience and cost competitiveness of products and values the mutually beneficial relationships with its customers, regardless of the size and scale of the customer, by providing high quality products and services of global standards at competitive prices in an efficient manner, manufacturing industry-leading and state-of-the-art products for its customers in different countries like China, Vietnam and India, offering customised services and flexibility to customers, and creating customer delight among passionate people engaged in a world-class manufacturing environment, and continues to prolong, develop, penetrate 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. However, as one of the core business of one major customer is not in the handset business, any change to its business strategy on the phone business may impact the Group's business, which will consequently drive the Group to devote resources to this customer to provide best-in-class services. Similar to many industries in today's globalised world, the handset market experiences continuous consolidation where smaller-by-smaller number of leading players tend to capture a relatively significant market share. As an OEM/ODM/IDM (Original Equipment Manufacture/Original Design Manufacture/Innovative Design Manufacture) and manufacturing solution-provider in the handset industry, the Group has proactively managed growth and concentration risk in a balanced manner, in the dynamic and competitive market.

One of such five largest customers during the period from 1 January to 31 July 2019 was Sharp Corporation, which is a connected person of the Company pursuant to the Listing Rules as it is an 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 6.33% of the Group's total revenue from the sales of goods and rendering of services for the current period.

The credit period granted to the Group's major customers (whether or not it is a connected person of the Company) ranges from 30 to 90 days, which is in line with those granted to other customers. The reversal of allowance for credit loss made for the current period was US\$0.17 million (when compared to the allowance for credit loss of US\$0.93 million made for the same period in 2018), while 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 have satisfactorily resulted in no credit-impaired receivables noted for the current period.

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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, the Group's procurement team deals with over 3,000 suppliers that supply components and other materials necessary for the Group's businesses, with the majority of them being reputable and qualified approved suppliers with long-term and stable relationships with the Group. 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 materials and components, price competitiveness, technical and technological competence, innovation and engineering capability, on-time delivery, service quality, commercial terms for supply transactions and specifications from its customers and scale and industry reputation and financial strength. Purchases from the Group's five largest suppliers accounted for approximately 71.25% 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, while the remaining one has been the Group's supplier for more than a year. The Group's contracts with these major suppliers neither require them to reserve their production capacity nor produce supplies or guarantee minimum supplies to the Group, which could leave the Group exposed to the risk of fluctuating supplies. Notwithstanding the apparent concentration of procurements from these major suppliers basically to secure better pricing, the Group is not exposed to any material risk of disrupted supplies from the Group's suppliers as the Group's procurement needs are well planned with sufficient buffer to address any possible material delay or shortage. Additionally, there are a vast number of alternative suppliers in the market for the Group to choose from. The Group forecasts that it will not be subject to significantly increased material costs or delay in cases where the Group were to switch suppliers in instances where such needs arise.

Notwithstanding that there are a great number of suppliers in the market that the Group could potentially choose from, the Group over the years has concentrated its procurement from major suppliers due to the ease of procurement process and stability of supplies and the commercially sound terms (especially pricing) 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 8.35% 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 2019 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 its diversified customers and suppliers base, and has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. In order to deal with future inflation risk and minimise the impact on operations, the Group pays close attention to market price trends and maintains good interaction with customers and suppliers with flexible procurement and sales strategies. For details, please refer to the "Accountability and Audit" section of the Company's 2019 corporate governance report, which forms part of the annual report incorporating this report of the directors.

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Employees are valuable assets to the Group. Therefore, the long-term strategy of the Group is to cultivate employees internally and to recruit outside professionals. Product development and manufacture are both complicated process and require professional and experts. Therefore, the Group pays attention to keep enhancing quality and quantity of staff force in order to secure its leadership and competency. The Group has been working diligently in different countries to attract and retain talents. As to talent development, the Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified and brilliant 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 and enrichment and diversification, coupled with better career prospect across various products and programs and business lines. The Group places great emphasis on career planning and talent development for employees in different countries by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency and technical development to enhance employees' capabilities, while external training programs include hands-on courses and workshops and seminars or conferences organised by external parties that provide excellent training and professional development opportunities for employees that bring theory and practice together to improve the competency of the Group. 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 arranged and 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, training and development, knowledge building, motivations, rewards and retention, as well as localisation. The Group complies with relevant labour laws and regulations to protect employees' rights and interests. In order to communicate effectively with staff, the Group provides channels like meetings, email, or mail box for employees to reflect their thoughts. Currently, the communication between the Group and employees is well conducted.

The Group has built up a global experienced R&D team with offices in Mainland China, Taiwan, India and Vietnam 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 the Group's customers. The Group strives to reinvent productivity to empower people and organisations to achieve an increased agility, streamline engineering processes, move faster and more efficiently, simplify its organisation, and remain lean and optimise its cost structure. 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, and sales and marketing competence. All employees took on every challenge unreservedly and confronted every frustration fearlessly.

As at 31 December 2019, the Group had a total of 85,729 (31 December 2018: 97,484) employees. Total staff costs incurred during the current period amounted to US\$531 million (full-year 2018: US\$523 million), and the year-on-year increase was mainly due to introduction of a new customer in 2018 and continuous growth of business with such new customer, as well as rightsizing of staff force according to business needs.

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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 and 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 2019 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.

Review of Results and Operations

Financial Performance

The financial KPIs (Key Performance Indicators) 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 (like outsourcing or insourcing) and life cycle, client mix, revenue and product mix (casing versus system assembly and other non-handset businesses), business segments, pricing strategy and policy, geographical footprint, competitive edges, cost structure, it may be difficult to make direct comparisons at consolidated group account level as some peers may have business segments other than mobile phone business.

From 1 January 2019, due to change of collaboration model between the Group and HMD, the Group discontinued its logistics and distribution business. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to represent the discontinued operation. The comparative figures of this section have been restated accordingly.

For the continuing operations in 2019, the Group recognised a consolidated revenue of US\$14,379 million, representing a decrease of US\$489 million or 3.3% when compared to US\$14,868 million for the same period last year. Net loss from the continuing operations for the current period was US\$33 million, when compared to a net loss of US\$679 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 that the Group has faced since late 2017 (like unfavourable product mix, increasing pricing pressure and price hikes in components) having continued through 2018 into 2019; (2) continued pressure on the Group's gross margins generally; and (3) the Group's continued foreign exchange-related net loss in 2019 (2019 exchange-related net loss was US\$57 million and was materially smaller than the Group's foreign exchange-related net loss of US\$102 million for 2018).

For the discontinued operation in 2019, the Group ceased its logistics and distribution business from 1 January 2019. The profit for the current period from the discontinued operation was US\$20.3 million, when compared to a net loss of US\$178 million for the same period last year. Such cessation has worsen the Group's 2019 gross profit as the Group lost distribution income (grouped under sales income) that would otherwise be generated from that business (sales income from that business for the year ended 31 December 2018 totalled around US\$61.77 million), on the flip side, no selling expenses were incurred during the current period to generate distribution income when compared with selling expenses of US\$99 million for 2018.

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Gross profit and gross margins of a manufacturing business are common financial KPIs measuring how effectively the company turns its revenue into profit and reflects how much of its sales a company retains after paying the up-front costs of producing the goods or services it sells and are essential to understanding the overall financial health of a company. A higher percentage of gross profit means a stronger ability to control cost of sales, which include 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. Within a given company, gross margin changes over time can provide useful insight into internal improvements in productivity.

As explained in further detail below, the Group's gross profit from the continuing operations for the current period of US\$253 million, represented an increase of US\$399 million profit from that for the same period last year, mainly as a result of adjustments to the collaboration model effected at the end of 2018 between the Group and HMD on Nokia branded smart phone business and shipment of Nokia-branded smart phones reduced greatly in 2019. Gross margins from the continuing operations for the current period represented a profit of 1.76% and was an improvement on the loss of 0.98% for the same period last year.

Following the acquisition of assets from Microsoft Mobile Oy ("Microsoft") in December 2016, and in 2018, subsequent to operating for two years, 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 the 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 at more competitive prices. For the Nokia-branded phone business, the Group had to do the commodity and program sourcing work itself. To relieve its pricing and gross margin erosion pressure, BOM cost 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. The cost increases in key components impacted profit margins due arise in BOM cost, which could not be automatically transferred to customers without creating a negative impact on demand. These unfavourable factors, BOM costs pressure, manufacturing costs and quality assurance costs of smart phones had affected the costs of smart phones manufactured by the Group sold to HMD and gross margins pressure were impacted significantly, which accounted for the high gross loss.

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Up to the end of 2018, despite all the actions and efforts that have been taken by the Group's Nokia-branded smart phone manufacturing business in the past two years, the overall performance was poor. Due to competition remaining fierce and given the difficulties forecasted in 2019, the Group critically reviewed its business strategy in 2018 year end and determined not to accept orders with poor margin in 2019 and ahead and at the same time, the Group's collaboration partner, HMD (which has been in the dynamic and competitive handset market) came to a strategic decision at 2018 year end to deploy a multi-ODM partnership strategy and not only seek for the Group's support but also contracts other ODMs. 2019 has been a challenging period for the whole handset industry (including HMD) due to many factors impacting competitive landscape while market has been shrinking in many geographies. There has been an increased pressure on pricing coming from the largest players in the industry fighting against recent trend in market share development. This situation was exacerbated by the U.S. deciding to continue its efforts in limiting the use of U.S. technology in foreign origin products for national security reasons. This led to an immediate impact on the whole industry halting supply in some markets and generating high price erosion and sales pressure on others. This was clashing with HMD plan of cleaning the past business model generated liabilities generated during 2018 coming from old second and third generation/wave smart phone products in a steady manner and the Group has continued to manufacture HMD's loss making second and third generation/wave old smart phone products until the end of the product lifecycle and only accept the design and manufacture of Nokia branded feature phone programs and new smart phone programs of satisfactory margin and such change in the collaboration model has gradually decrease the sales to HMD in 2019 and the sale drop to HMD can be partially offset by sale to the new U.S. internet customer. As 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 was lowered in the second half of 2019 and the Group's gross margin (excluding the impact to gross margin triggered by the discontinuance of phone distribution business) has improved gradually. Now the Group can refocus on Nokia-branded smart phone projects with optimised profit margins, which will ease the margin erosion pressure and is reflected in the year-on-year improvement of Europe segment (please refer to note 5 of "Revenue and Segment Information").

As a whole, there is a continuous need to drive for better internal operational efficiency of manufacturing processes, testing processes, inventory and supply chain management, quality management, capital expenditure control, 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. In conclusion, good vendor management, supply chain management, manufacturing management, business control management, quality management, order fulfillment and inventory management are critical to ensure cost efficient operations.



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Peers

Apart from the Nokia-branded phone manufacturing business, the Group's casing and system assembly business also continued to face many tremendous challenges. In the third quarter of 2019, many mechanical vendors had chosen to diversify their product mix beyond mobile phones to improve their gross margin rate in the declined mobile phone market, which led to an easing on the price competition in this industry. While in the past two years, there had been a change in the Group's 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 weight of system assembly business of comparatively low gross margins kept increasing in 2019 but is expected to decrease in 2020. 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 the Group's customers. They also have customers, which are not customers of the Group. They have strong cost competitiveness and they are innovative (like having 2.5D/3D glass casing capabilities or "Glastic" back cover, a glass-like casing technology), 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 2019 quarterly results) of the 5 major competitors/peers had been conducted in-house and the study showed that most Chinese vendors' performance would deteriorate when compared to last year but was in general improved in the third quarter of 2019. These peers' core businesses are diversified. Apart from casing business, they also engage in other businesses such as the research and development of antenna for 5G station and smart phone. For these 5 peers, their core and other businesses and 2019 quarterly performance are listed as follows:

- i. Peer 1 is a Hong Kong listed company whose core businesses are acoustics and haptics optical applications. Its gross margin rate and net profit rate hit a historical low in the second quarter of 2019 due to decreased order from its biggest customer, but bounced back in the third quarter of 2019 due to improved revenue and margin rate of acoustic products. According to what its management team stated during its conference call for the first half of 2019, due to U.S.-China trade war, the company has restarted its factories in Vietnam and Philippine in second half of 2019 to reduce the impact. Regarding its 2019 full year performance, according to an estimation from a research institution, although its total revenue is expected to slightly decrease 2% year-on-year, its net margin rate would largely decrease from 21% in 2018 to 12% in 2019. For mechanical, shipments increased 68% year-on-year in the third quarter of 2019 due to a higher penetration in high-end Android phones, but gross margin slightly decreased due to higher materials cost. For 5G non-casing business, the company expects to ship antenna products for 5G station and smart phone in 2020, and also invested in the research and development of PCB for 5G station;
- 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 OEM/ODM service provider for handset EMS and a provider for a wide range of metal, glass, and ceramic designs. Its net profit decreased almost 50% year-on-year in the first half of 2019 due to decreased shipment of its biggest customer, which however slightly recovered in the third quarter of 2019 due to the growth of 5G phone shipment and improved mechanical market. According to an estimation from a research institution, its total revenue in 2019 is expected to increase 37% year-on-year, but its net margin would decrease 28% year-on-year in 2019 due to increased operating expense;

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- iii. Peer 3 is a PRC (People's Republic of China) listed company whose shares are listed in the Shenzhen Stock Exchange and its core business also includes IMT casings and glass casings, and water-proof components. Its revenue decreased around 7% year-on-year and net profit decreased around 20% year-on-year in the third quarter of 2019 due to weak demand from key customers. Its revenue contribution from metal mechanical business continue to decrease from 60% in 2018 to 50% in the first half of 2019, and its revenue from smart phone business decreased to less than 70% of its total revenue. The company has chosen to expand its product categories to include products such as USB Type-C connector for Android phones, smart wearable devices, touch pen and high voltage connector system and model for new energy vehicle;
- 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, and micro precision connectors respectively. In the first half of 2019, its revenue decreased around 6% year-on-year due to the slowdown in growth of smart phone market and the depreciation of China's Yuan, and growth margin rate slightly went down due to decreased shipment of metal back cover. While in the third quarter of 2019, its revenue increased around 8% year-on-year due to increased shipment of "Glastic" back cover. According to its announcement, the company also completed the research and development of the antenna of 5G base station for the further revenue growth; 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. Thanks to the increased order of tablet metal cases from American customers and RMB (Renminbi) depreciation, its gross margin turned a profit in the second quarter of 2019 and net profit turned profitable in the third quarter of 2019. For 2019 full year, its annual revenue is expected to slightly increased 6% year-on-year, and its net loss would decrease 62% year-on-year in 2019 according to an estimation from a research institution.

Since 2018, many smart phone vendors proceeded to adopt the metal mid-frame with glass/"Glastic" back cover for better Wifi/LTE signal performance and wireless charging, which lowered the utilization rate of CNC (Computer Numerical Control) machines, so the smart phone centric mechanical vendors were forced to adjust their product mix. Therefore, the Group will also put effort to diversify its product mix, and devoted 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 like Vietnam and India in the medium term.

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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. But the amount working capital employed to finance system assembly business can be high. The Group's Indian operation is strong due to its ownership of a very large system assembly capacity and its vertical integration from PCBA to complete handset assembly. Due to the U.S.-China trade war, some customers in this industry are seeking manufacturing services out of China while there are only a few peers with existing overseas capacities or overseas capacities that are just being established, so the Group can utilize its existing capacities in India, Vietnam and other countries to secure more orders. 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 third quarter results, its gross margin rate and net profit rate remained at 3% and 1% respectively, but its revenue increased around 8% in the first nine months of 2019 due to increased shipment for key customer. Due to the U.S.-China trade war, this Taiwan peer has officially opened its new factory in Indonesia in the middle of 2019, and moved part of capacity back to Taiwan to avoid additional tariffs. 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. Its revenue largely increased and profitability also improved in the first nine months of 2019 due to new ODM customers and increased capacities in China and India as more and more smart phone brand companies are now adopting ODM solutions to remain competitive in the market. 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. Its net sales decreased by 9% year-on-year and posted a loss during the six months period ended 27 September 2019 primarily resulted from losing a key customer in China due to the U.S.-China trade war. The above comparison with the 3 peers showed that the OEM market still fluctuates and is highly competitive and the margins of system assembly business/industry is narrow due to the declined smart phone shipment.

Other income, gains and losses from the continuing operations for the current period was US\$139 million, representing an increase of US\$44 million from that for the same period last year, mainly as a result of the significant year-on-year decrease in foreign exchange loss. The Group had experienced a foreign exchange loss of US\$57 million during 2019, when compared with the Group's foreign exchange loss of US\$102 million during 2018. The Indian Rupee ("INR") appreciated from the peak of 71.7 per dollar down to 68.9 per dollar after prime minister Modi won the general election in the first half of 2019, however, due to the ongoing U.S.-India trade war and sluggish Indian economy, the Indian Rupee fell from 68.4 to the peak of 72.3 in the second half of 2019. In order to further reduce currency exposure and save hedging costs, the Group has modified the currency settlement mechanism business model with its customers for India business in the second half of 2019, therefore the exposure to Indian Rupee is expected to be decreased in 2020.

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Fair value gain of equity investments at fair value through profit or loss increased by US\$73.3 million to US\$2.6 million for the current period (2018 fair value loss was US\$70.7 million). Service income also decreased by US\$35 million and service income for the current period is US\$64 million (2018: US\$99 million) and was mainly due to decrease in the product development service provided to customers.

Regarding operating expenses, for the current period was US\$367 million, compared to US\$470 million for the same period last year. For selling expenses and general and administrative (“G&A”) expenses, with the effort of cost savings, there was a year-on-year decrease by US\$7 million and US\$39 million respectively. For R&D expenses, there was a year-on-year decrease of US\$57 million and the decrease was mainly attained by the optimisation and rightsizing of staff force and stringent overheads and costs control. But there is a continuous investment in product innovation in order to remain competitive and offer unique values to customers. In light of the factors as mentioned above, loss attributable to owners of the Company from the continuing operations for the current period was US\$33 million, as compared to a net loss attributable to owners of the Company from the continuing operations of US\$679 million for the corresponding period last year. The net loss margin from the continuing operations for the current period was 0.2%, as compared to the net loss margin from the continuing operations of 4.6% for the same period last year.

Net profit and net profit margin are the financial KPIs measuring earnings/losses resulting from subtracting operating expenses and other gains and losses (such as equity investments fair value change) and tax and interest costs from gross profit earned and shows the residual of all revenues and gains over all expenses and losses for the period and result in net change in shareholders’ equity that results from a company’s operations. It measures the ability to control operating expenses and optimise tax and interest costs and minimise other kinds of non-operating gains and losses (such as equity investments fair value change). In light of the factors mentioned above, loss attributable to owners of the Company from the continuing operations for the current period was US\$33 million, as compared to a net loss attributable to the owners of the Company from the continuing operations of US\$679 million for the corresponding period last year. The net loss margin from the continuing operations for the current period was 0.2%, as compared to the net loss margin from the continuing operations of 4.6% for the same period last year. The net loss decreased by US\$646 million for 2019, compared with net loss of US\$679 million for 2018.

As at 31 December 2019, 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 successfully a company utilises the resources provided by its equity investors and the company’s accumulated profits in generating income was 0.58% negative, when compared with the ROE as at 31 December 2018 of 39.97% negative. The Group strived to achieve a better ROE during the current period.

Income tax expense during the current period was US\$28 million, when compared to income tax expense of US\$4 million for the same period last year. The increase in income tax expense was mainly due to income tax incurred in certain profitable entities during the current period. During the period ended 31 December 2019, there was US\$3.1 million impairment was recognised for property, plant and equipment, compared to impairment loss recognised for property, plant and equipment of US\$6.1 million for the same period last year. Besides, impairment loss of US\$2.4 million was recognised for interest in a joint venture during the current period. After evaluating the portfolio investments, the Group had disposed some of its investments in 2019 to realize the investment gain or minimize potential loss, and the Group will keep monitoring its remaining investment and seek exit opportunities for certain investment in 2020 to maximize the Group’s profit.

Basic loss per share from continuing operations for the current period was US0.40 cent.

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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 2019, nor has any dividend been proposed since the end of the current period.

Sales

For 2019, the Group recognised a consolidated revenue of US\$14,379 million, representing a decrease of US\$489 million or 3.3%, when compared to US\$14,868 million for the same period last year. Since 2017, the Group started generating 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 and terminated its logistic and distribution business which inevitably impacted the performance of sales of this part of business and gross margin of the Group. But the Group continues to manufacture Nokia-branded feature phones. Thanks to the Group's continuous development and penetration of the Chinese and international brand customers and efforts to expand its global production footprint, the sales drop to HMD was partially offset by the sale to the new U.S. internet customer. For other major customers, there was not much dramatic year-on-year change as the market is really competitive and the customers face challenges and opportunities as well. System assembly sales remained flat in the current period whilst casing business continued to decline in the current period due to those unfavorable above mentioned. One of the Group's key customers in China estimated its revenue and smart phone shipment to increase no more than 20% in 2019, which was lower than the previous forecast due to the entity list by U.S. Commerce and lack of GMS service in newly released phones in oversea market. The other key Chinese customer faced challenge in China handset market due to the fierce competition but significantly grew in oversea handset market. For the Group's American customers, their revenue contribution increased when compared to 2018, and with the Group's global manufacturing footprint, they were able to move out the manufacturing from China in a speedy manner without facing any product shortage.

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 and strive to maintain a healthy customer mix and sales mix. 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 diversified 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. From 2017 to 2019, the competition continued to be fierce and price and margin erosion was still ongoing. However, the global phone shipment bounced back to growth since the third quarter of 2019, which mainly contributed to increased smart phone shipment in India. The India smart phone shipment recorded 152.5 million units with 8% year-on-year growth in 2019 and became the second largest smart phone market after China due to new model launches and price corrections on a few key models by various Chinese brands according to IDC. In China, although the market kept dropping in 2019, Huawei's shipment and market share largely increased since the end of second quarter through refocusing in China domestic market. Additionally, due to 5G roll out in China, more than 10 million units of 5G phones had been shipped just in the last two months of 2019. Regarding the African market, Africa's mobile phone market also bounced back to growth in shipments in the third quarter of 2019, with feature phone still accounting for around 60% of the total shipment. The IDC Quarterly Mobile Phone Tracker shows that Africa's mobile phone market grew from 52.2 million units in second quarter of 2019 to 55.8 million units in third quarter of 2019.

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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 as the modular structure of the industry lowered the barriers for 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 similar to the computer industry. 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 with a high efficiency. As mentioned in the above sections of “Financial Performance” and “Sales”, for current period of 2019, the year-on-year decrease of sales was mainly attributable to the corresponding change of the collaboration model with HMD. But as 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 Company undertook measures with the aim of achieving the objective that the gross loss margin of Nokia-branded smart phone manufacturing was reduced in the second half of 2019 and the Group’s gross margin improved gradually. Following this, the Group can refocus on the Nokia branded smart phone projects with optimised profit margins, which has eased the margin erosion pressure. But at the same time, changes in product mix and crowded competition in the casing business (resulting from surplus capacity in the casing sector) and weak system assembly business margins and increasing high manufacturing costs, combined with the impact of U.S.-China trade war, have induced heavy pricing pressure on the Group and hence inevitably imposed pressure on gross margins.

In general, the Group has strived to improve efficiency and maintain a good and stable yield by enhancing production automation, asset utilisation and capacity optimization, quality assurance and quality control, and tighter control on manufacturing overheads and capital expenditure. The Group’s automation engineering team has continued to increase automation coverage across different manufacturing processes to diminish 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 of “Revenue and Segment Information” 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 will continue in 2019. The revenue of Asia segment in the current period was US\$12,023 million, representing an increase of 2.5% from that for the same period last year (YTD 2018: US\$11,725 million) and the increase was mainly due to Chinese and other international brand customers, offset with the reduction of support to Nokia Branded phones. In the current period, Asia segment’s recorded earnings were US\$230 million which were higher than the recorded earnings of US\$257 million for the same period last year. 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 continue 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 has faced pressure this year and such pressure will prevail. Amid fierce competition, the China smart phone market continues to be the focus of the Group. Years ago, the strategy of the Group is to shift the gravity of operations and devote resources to Asia segment, including India and Vietnam, following the downsizing of European sites so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment and develop additional businesses and customers and serve existing customers in an improved manner. In particular, a lot of customers with phones shipping to the States have been moving some of their PRC operations out of China and have asked the Group to manufacture phones in other Asian countries like Vietnam.

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The Group believes that outside Asia Pacific, the biggest regions for growth will be Africa, Middle East, and Latin America. All these three regions have relatively low penetration rates and with large upsides. In anticipation of the good opportunities mentioned above, the Group has already set up and maintained handset assembly factories in India and Vietnam for years and has helped certain Chinese brand customers to develop business and grasp larger market shares in Asia and overseas markets outside of China in the past couple of years. With the lingering of trade war, customers are now flocking to Asian countries like Vietnam and the Group has kept reviewing its global capacities to optimise resources and capacity in emerging markets, including India and Vietnam. The Group continues to further align its manufacturing capacities with the geographic production demands of customers and expand its capacity and capability there. Sales of the Group's Indian operations in the current period were about 28% of the total sales of the Group due to the continuous growth of the business of a Chinese brand customer in India. The Group's factory operation in India is one of the largest contract manufacturers in India and the Group will continue to optimise its infrastructure and capacity in anticipation of additional Chinese customers in India. To this effect, the Group has injected additional capital of around US\$100 million on 4 December 2019 and US\$19 million in 19 December 2019 into its Indian operation.

- Europe segment:

The recorded revenue of Europe segment in the current period was US\$1,106 million when compared with the recorded revenue of US\$2,005 million for the same period last year and the revenue of Europe segment decreased in the current period. Despite all the actions and efforts that have been taken by the Group's Nokia branded phone business in the past two and half years, the overall performance has been poor. As competition remains fierce and given the difficulties in 2019, the Group has critically reviewed its business strategy at 2018 year end and will not accept Nokia branded phone orders with poor margin and at the same time, the Group's partner, HMD (which is a Finnish company and 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 other ODMs. As a result of such adjustment to the collaboration model with HMD, number of Nokia-branded phones smart phones sold to HMD decreased. The recorded earning of this segment in the current period was US\$11 million, when compared with the recorded loss of US\$376 million for the same period last year and there was improvement as less loss making smart phones were sold. In the previous two years, the performance of Europe segment has deteriorated dramatically which has adversely affected the performance of the Group and the Group has taken above appropriate actions to reduce and diminish the impact of this loss-making of this segment on the Group.

As 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 Group has taken measures with the aim of achieving the objective to reduce the gross loss margin of Nokia-branded smart phone manufacturing in the second half of 2019 and the Group's gross margin (excluding the impact to gross margin triggered by the discontinuance of phone distribution business) has improved gradually.

Additionally, the Group will continue to closely monitor and assess the impact of this segment on the Group's overall performance and cash flow.

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- America segment:

For the America segment, the recorded revenue in the current period was US\$1,249 million when compared with the recorded revenue of US\$1,138 million for the same period last year and the year-on-year increase largely came from the increase of sales to a U.S. based internet customer. Core businesses (both now and under development) of American segment entities located in the States 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 US customers. The recorded earnings for the current period were US\$59 million when compared with the recorded earnings of US\$48 million for the same period last year. Due to the increase of sales to the U.S. based internet company and the change to Group's Nokia-branded smart phone business strategy (and some more phones will be sold to the States), the performance of the America segment has a positive impact on the Group's overall performance in 2019. The Group will closely monitor the future development of this segment.

Investments

On the basis that the value of each of the investments mentioned below as of 31 December 2019 does not exceed 5% of the Group's total assets as at 31 December 2019, the Company does not consider any such investment as a significant investment for the purposes of the Listing Rules.

Although the 2019 global market has been sluggish and renders it difficult to identify investments of good potential, the Group has continued to enhance its EMS businesses and explore new opportunities of 5G related application and V2X (Vehicle-to-Everything) to reinforce the Group's dominant position in the mobile handset manufacturing industry and build up the Internet and the mobile ecosystem through investments and M&A (mergers and acquisitions) opportunities and activities.

Investments in 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 Nokia-branded 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 a goodwill of US\$79.4 million. Due to the unsatisfactory performance in 2018 and based on the valuation carried out by an independent professional valuer, the Group has fully impaired the goodwill of US\$79.4 million in 2018 year end.

The challenging market environment in 2019, coupled with HMD's challenges of scaling the supply chain to meet the diverse portfolio needs had an adverse impact on HMD's sales and profitability in the first half of 2019. In May, HMD switched to a multi-ODM set-up to launch its new phones. This supply chain expansion from FIH as the only supplier into multi-ODM model was motivated by improving purchase price competitiveness, reduction in component liabilities, faster time to market and stronger ramp-up capability to capture early months demand with higher probability. New supply chain ramp up has been a success for HMD and results are already visible in business performance. At the end of 2019, almost all of HMD's smart phone portfolio is manufactured by the new ODMs.

Feature phone business has been managed conservatively with a focus on profitability to adapt into supply chain cost level, and FIH is the sole supplier.

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The multi-ODM model, coupled with a more focused approach on selected markets and hence profitability, helped HMD to turn operating margin (EBIT) positive for the first time in the fourth quarter of 2019. Feature phone profitability was also significantly improved without compromising the market position of Nokia brand. HMD is committed to continuously drive meaningful innovation across its portfolio, including the feature phone segment, to maintain industry leadership. In smart phones, the focus remains on offering signature experiences that consumers have come to expect from a Nokia phone — data security, durability, quality, design and long battery life.

Looking forward, HMD is optimistic that consumers look for Android phones which offer high level of security, software updates and upgrades. Mobile market has drifted towards a fast-paced and quick transition road mapping making a new phone feel old after a short while. At the same time products are more and more differentiated on software than hardware. New innovations in the industry will be more software led. HMD's promise of always up-to-date Android is unique. It enables HMD to define products where Android services are flawlessly integrated into hardware experience. Good example of that is dedicated hardware key for Google Assistant in 2019 portfolio — aimed at offering a unique user experience to Nokia phone fans.

The promise of pure, secure and up-to-date Android has resonated very well with the enterprise customers, where typically Android adoption has been restricted unless separate expensive security solutions were used. Nokia smart phones offer a secure solution, right out of the box without any needs for additional investments from the enterprise customers. HMD has a broad portfolio of Android Enterprise Recommended smart phones for this segment. HMD is seeing a similar trend emerging among consumers who care about their privacy and in general want to own products which offer a secure software experience — one that keeps getting better through regular updates. During 2019, HMD won a number of significant contracts with large enterprise customers.

In the feature phone segment, HMD is striving to add new functionalities to offer a 'smarter' experience to the consumers. At the same time, HMD is helping operators transfer subscribers from 2G to 4G networks and offer them a more connected experience at an affordable price.

HMD started Series B funding round during the first half of 2019. This is the third funding round for HMD after seeding round in start-up phase, and Series A that was closed in the second quarter of 2018. Main purpose of Series B round is to collect funding to deliver growth plan, strengthen the balance sheet and expand the investor base. HMD hopes to close the Series B funding round in first half of 2020.

The Group previously invested US\$64.5 million in HMD, which represented about 10.10% (calculated on as-converted and fully-diluted basis) of the total issued shares of HMD as at 31 December 2019.

With reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in HMD as at 31 December 2019. The Group did not recognise any fair value change for the Group's direct and indirect investment in HMD through other comprehensive income ("OCI") in 2019. The investment team will monitor the progress of the fund raising and its cash position and business performance and impact of COVID-19 to its business.

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Other Major Investments

The Group invested in Mango International Group Limited (“Mango”), a company which offers mobile services in the tourism sector. The Group fully impaired the Group’s investment in Mango in year 2018. In April 2019, considering the material uncertainties and doubts of going concern, the Group decided to sell the convertible note to an institutional private investment firm (“Buyer”), specialising in Chinese distressed debt and structured credit, to maximise the Group’s return in this investment, and resigned from the board. Therefore, the investment in Mango is reclassified from interest in associates to financial assets at fair value through other comprehensive income (“FVTOCI”). The Group and the founders of Mango (“Founders”) also entered into an agreement that the Group has the right to request the Founders to transfer certain number of their own shares to the Group to compensate the loss. During the course of the transactions, the management of the Company’s evaluation of Mango’s management accounts, cash flow analysis, financial forecasts, business performance and prospects, valuation analysis and other relevant information and documents then available, and also the relevant negotiations and documentation with the Founders and management of Mango, existing investors and the Buyer respectively (with the aim to securing more favourable terms for the Group as a viable partial-exit opportunity of the Group to optimise the Group’s return from part of its investment in Mango in the circumstances), were recorded and reported to the Board for its consideration. In June 2019, the Buyer converted part of the convertible notes and became the largest shareholder with over 60% shares of Mango. In August 2019, the Founders had completed the shares transfer to the Group, and therefore the Group now holds around 9.6% of the total issued shares of Mango.

In August 2016, the Group invested approximately US\$50 million in Hike Global Pte. Ltd. (“Hike”), an Indian-based social media application developer and accounted for as FVTOCI. Hike built up an instant peer-to-peer messaging application with localised lifestyle functions. In March 2019, Hike officially launched a new application called Hike Sticker Chat (“HSC”), which allows user to communicate by sending predictive sticker-based messages to reduce the dependency on the keyboard. As for now, the HSC has successfully crossed 2 million WAU (Weekly Active Users) without conducting any major marketing investment. In the second half of 2019, HSC has been recognized as one of the ‘Best Everyday Essential Apps’ of 2019 by Google Play. Hike has also launched HikeMoji which is available in 7 regional languages and allows users to choose from 1,000+ components integrating hyper local clothing, hairstyles, accessories as well as access to 100+ exclusive HikeMoji stickers. Over one million HikeMoji Avatars have been created within 2 months from the date of launch. Hike also invested in the first local real money casual gaming platform with 20+ games and a great revenue. Though Hike has tried to provide various functions and monetize its users and platform in 2019, it would still need more time to continually grow its users and revenue size to reach an economics of scale. Based on the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in Hike as at 31 December 2019. The Group took corresponding adjustment to the fair value change in this investment.

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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. Razer has designed and built the world's largest gamer-focused ecosystem of hardware, software and services. In the first half of 2019, Razer's revenue increased 30% year-on-year, and the net loss also improved mainly due to its triple-digit growth in service revenue. On 2 January 2020, Razer announced "Razer Fintech" has submitted its application for a Digital Full Bank License and will be approved by the Monetary Authority of Singapore ("MAS") to establish the "Razer Youth Bank". For 2019 full year, a research institution expects Razer's revenue to grow 15% year-on-year and its net loss to narrow 10% year-on-year, and be able to turn profitable in 2020. As the continual growth in revenue and improved profitability, its share price increased 21% (from HKD1.05 per share to HKD1.27 per share) during 2019. Thus, there was US\$0.7 million of fair value gain recognised in profit or loss during 2019 for the Group. As at 31 December 2019, the fair value amount of Razer is US\$3.7 million and the Group holds 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. In 2018, the loss of a significant customer and low sales volume impacted CEX's overall income, which resulted in a sustaining loss, therefore the Group had fully impaired this investment by the end of 2018. The Group finally decided to dispose of its interests in CEX in 2019. The Group then discussed with a couple of potential buyers, and after rounds of negotiations, the Group entered into an agreement to sell all 49% of the Group's membership interests of CEX to the relevant buyer in December 2019. During the course of the transactions, the management of the Company's evaluation of CEX's management accounts, cash flow analysis, financial forecasts, business performance and prospects, valuation analysis and other relevant information and documents then available, and also the relevant negotiations and documentation with the founders and management of CEX and the relevant buyer respectively (with the aim to securing more favourable terms for the Group as a viable exit opportunity of the Group to optimise the Group's return from its investment in CEX in the circumstances), were recorded and reported to the Board for its consideration.

The Group invested US\$1 million in CloudMinds Inc. ("CloudMinds"), an operator of cloud-based AI robots in China in 2015. During the first half of 2019, CloudMinds successfully closed series B financing, and filed with the U.S. SEC (Securities and Exchange Commission) to propose maximum aggregate IPO (Initial Public Offering) size US\$500 million on 12 July 2019, and in the second half of 2019 CloudMinds provided the updated financial results in the first half of 2019 on 12 September 2019 in accordance with the SEC's listing rule. Currently CloudMinds is evaluating the appropriate market window to launch the IPO, and is also discussing with prospective investors for further capital injection prior to the IPO to support the strong business growth needs. The company has grown its business and revenues in 2019, and would keep expanding its customers and products in the upcoming year based on the performance in 2019 and the forecast for the next three to five years and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in CloudMinds as at 31 December 2019. The Group recognised a fair value gain of US\$13.8 million in other comprehensive income during the current period. As at 31 December 2019, the fair value of CloudMinds is US\$14.8 million and the Group's investment represented 0.88% of CloudMinds on a fully-diluted basis.

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The Group invested around US\$2.5 million in Jiangsu Liangjin Electronic Commerce Share Co., Ltd (“Liangjin”), a distributor of mobile devices and accessories, which is quoted and traded on the PRC’s National Equities Exchange and Quotations, also known as the “New Third Board”, with stock code 834438. In April 2019, Liangjin released its qualified audit report due to the inestimable impact of an ongoing lawsuit and material uncertainty related to going concern because of its negative net value as at 31 December 2018, and Liangjin’s first quarter report in 2019 also showed its current assets was largely lower than its current liabilities. In addition, all transaction of Liangjin’s shares were suspended because of the lack of support from sufficient market makers since 5 June 2019. In the second half of 2019, the company made further announcements regarding the resignation of certain board directors and the chief financial officer of Liangjin due to their personal reasons. Considering Liangjin’s performance and the liquidity of its shares, the Group took corresponding adjustment to the fair value change in this investment. As at 31 December 2019, the Group’s investment represented 4.41% of Liangjin’s total issued shares.

The Group invested in Ways Technical Corp. Ltd. (“Ways”) since 2008, which was founded in 2001 and specialising in plastic surface decorating techniques. The shares of which are listed and traded on the Gre Tai Securities Market of Taiwan with stock code: 3508 since 2007. During the period from December 2018 to April 2019, the Group disposed of all remaining 12,105,248 shares, represented 11.8% of Ways, for around US\$11.9 million during the first half of 2019 to maintain a healthy cash flow for its core business.

The Group invested around US\$0.7 million in Augentix Inc. (“Augentix”) by subscribing Augentix’s convertible note in December 2019. Founded in 2014, Augentix is a fabless multimedia SoC (System on Chip) design company based in Taiwan. Its product offering features with efficient intelligent vision applications using proprietary algorithms and hardware accelerations. The first SoC series of Augentix has been adopted by leading brands and platforms in the fields of home IoT (Internet of Things), professional IP camera, and consumer surveillance products. With its emerging new SoC platform available in 2020, Augentix is expected to provide broader AI applications in car dash camera, ADAS, and robots. Through this investment, the Group expects a deeper collaboration with Augentix to further develop in IoT and V2X industry.

The Group also made certain investments in other companies designated as FVTOCI mainly in China, India and U.S. in the past few years. In China, the Group’s investments mainly include a smart home company who provides smart door lock and other IoT products, a technology company who provides educational robots, and a company who provides medical devices for people with myopia. In India, the Group’s investments mainly include a data-driven advertising technology company. In 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 2019, the fair value of the Group’s equity investments designated as FVTOCI was US\$124 million, which represented 1.77% of the Group’s total assets.

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Other Investment-Related Matters

In such a dynamic and volatile equity investment market, the Group's investment team is invariably cautious, 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 and outlook of investees. In 2019, the Group had disposed of some investments, and also impaired a few investments which had less than ideal performance. The investment team maintains a close relationship with the respective management teams of those 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 is not currently aware of any potential cause which would lead to any substantial loss arising from the change in the fair value of the Group's investments in certain listed companies in the first half of 2020. 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, IoV (Internet of Vehicle) and AI for building up the Internet and the mobile ecosystem, which includes but not limited to IoT smart devices, smart home products, IVI (In-Vehicle Infotainment) and telematics system, V2X (Vehicle-to-Everything) technologies, or others for synergies creation via establishing strategic partnerships with technology companies. Among the characteristics that the Group looks for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations and new business including IoV; 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 throughout 2020.

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, foreign exchange control and intellectual property in the principal jurisdictions in which the Group's operations and investments are situated, and (as the shares of the Company have been listed and traded on the Stock Exchange) applicable requirements under 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 the relevant jurisdictions. 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.

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During the current period, as advised by the relevant local legal advisers and tax advisers, the newly-promulgated local laws and regulations applicable to the Group's operations in the PRC, India and Vietnam (being the jurisdictions which are considered, in terms of the scale of businesses and operations as well as the number of employees, factory units and office units, to reflect the comparatively significant impacts of the Group's overall business unit/group operations) that have a significant impact on the Group are highlighted and summarised as follows, in addition to those set out from page 67 to page 69 of the Company's 2019 interim report as issued and published on 9 September 2019:

- **PRC**

For value-added tax (VAT), please refer to the background and previous developments as respectively described in page 28 of the Company's 2018 annual report as issued and published on 9 April 2019 and page 67 of the Company's 2019 interim report as issued and published on 9 September 2019. From an enterprise's perspective, this VAT reform has been good news and favourable to the Group since its promulgation as less cash has been and will be needed for domestic purchases. On 27 November 2019, the Ministry of Finance and the State Administration of Taxation jointly issued the draft Value-Added Tax Law (consultation draft) (Draft VAT Law), which is an important milestone for the "principle of taxation legitimacy" of the PRC. The Group will continue to monitor the legislation process of the VAT regime and assess the potential impacts of the Draft VAT Law on the Group in anticipation of its enactment. In the meantime, it is currently envisaged to have potential impacts on the Group's PRC operations, including the following: (i) the Draft VAT Law may offer two options for excess input VAT credit (i.e. either to claim refund or to carry-forward to the forthcoming tax periods, when the latter option is currently the only option), and subject to any implementation details as to how this may work in practice under the refund mechanism, the Group's PRC subsidiaries may increase their respective cash flows when choosing the option to claim refund of the excess input VAT credit; and (ii) the Draft VAT Law may remove the current tax periods of 1 day, 3 days and 5 days, which may benefit the Group's PRC subsidiaries by reducing their respective administrative burden and resources due to less frequent preparation and filing of VAT returns, and also, by increasing their respective cash flows due to longer tax period when they may pay VAT later than before.

In respect of foreign investment laws and regulations, further to the Foreign Investment Law (FIL) promulgated by the National People's Congress on 15 March 2019 as described in page 68 of the Company's 2019 interim report, Implementation Regulations on Foreign Investment Law and a series of supporting regulatory documents¹ (which were issued in December 2019) have also come into effect on 1 January 2020, which have provided for further details, clarifications and practical guidance regarding certain aspects of the FIL. The above-mentioned legal stipulations have brought considerable changes to the foreign investment regime in the PRC, and are believed to create a friendlier and more efficient market for foreign investors in the PRC. Certain key changes to the PRC's foreign investment system and potential impacts on the existing PRC foreign-invested entities (FIEs) of the Group are highlighted and summarised below:

¹ The supporting regulatory documents include, but are not limited to, the "Measures for the Reporting of Foreign Investment Information", the "Announcement on Matters Concerning the Reporting of Information on Foreign Investment" and the "Circular on Effective Work on Registration of Foreign-invested Enterprises for the Implementation of the Foreign Investment Law".

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- **Corporate Governance Structure:** Prior to the FIL having taken effect, foreign investment was mainly governed by the Sino-Foreign Equity Joint Venture Law, Sino-Foreign Cooperative Joint Venture Law and Foreign Enterprise Law (collectively, Initial Foreign Investment Laws). Since 1 January 2020, the Initial Foreign Investment Laws have been repealed and replaced by the FIL, and corporate governance laid down in the PRC Company Law applies to FIEs. To this end, the governance structures and constituent constitutional documents of FIEs shall be adjusted to accommodate the corresponding requirements under the PRC Company Law, which may imply additional costs of regulatory compliance. That said, the FIL provides for a five-year transition period from 1 January 2020 until 31 December 2024 for existing FIEs to conform with the PRC Company Law. The Group has been assessing this aspect, and will devise and implement appropriate corporate initiatives and actions for FIEs.
- **Information Reporting System of Foreign Investment:** The establishment of or corporate changes in FIEs, which fall out of the Negative List², is now only required to submit an initial report or change report (as applicable) to the competent Ministry of Commerce through the online enterprise registration system. Such a reporting system will reduce the administrative burden on FIEs significantly.

- **India**

The Indian Government has brought in the Taxation Laws (Amendment) Ordinance, 2019 to make certain amendments to the Income-tax Act, 1961 and the Finance (No. 2) Act, 2019. This was stated by the Union Minister for Finance and Corporate Affairs Mrs. Nirmala Sitaraman during the press conference held in Goa on 20 September 2019. The amendments applicable to the Group and/or the relevant Indian subsidiaries of the Company as well as their respective impacts on the Group during the current period are highlighted and summarised as follows:

- In order to promote local economic growth and investments, with effect from the financial year 2019/2020, any Indian company can avail itself of an option to pay income tax at the effective rate of 25.17% (the standard rate of 22% plus applicable surcharge of 10% and education cess of 4%) on the condition that such company does not avail itself of certain specified tax incentives or exemptions under the Income-tax Act, 1961. It will significantly reduce the tax burden (approximately 9%) of the Group's Indian subsidiaries.
- In order to attract fresh and further investments in local manufacturing industry, any new Indian manufacturing company incorporated on or after 1 October 2019 has been and will be allowed to pay corporation income tax at the effective rate of 17.16% (the standard rate of 15% plus applicable surcharge of 10% and education cess of 4%) on the condition that such company does not avail itself of certain specified tax incentives or exemptions under the Income-tax Act, 1961, and also commences production on or before 31 March 2023. The Group may contemplate establishing a new subsidiary (instead of injecting any new manufacturing-related business into an existing Indian subsidiary) to avail itself of this benefit, in which case much lower corporation income tax rate is applied.
- Moreover, no minimum alternative tax (MAT which is a tax effectively introduced by the Finance Act of 1987, vide Section 115J of the Income-tax Act, 1961, to facilitate the taxation of "zero tax companies", i.e. those companies which show zero or negligible income to avoid tax) has been and would be imposed on the above companies. With the move of removing MAT, the Group's Indian subsidiaries (which would otherwise be obligated to pay minimum tax as per the MAT provision) can benefit from the lower income tax rate.

² Negative List means the "Special Administrative Measures for Access of Foreign Investment" issued by the State Council, which is an official list of specific sectors that are subject to special administrative measures on foreign investment entry.

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- A company which does not opt for the concessional tax regime and avails itself of certain specified tax exemption(s)/incentive(s) shall continue to pay income tax at the pre-amendment rate (the standard rate of 25% for domestic companies with a total turnover of up to INR four billion per annum; 30% for other domestic companies; and the highest effective rates are 29.12% and 34.94% respectively). However, this company can opt for the concessional tax regime after the expiry of its tax holiday/exemption period. After the exercise of the option, such company shall be liable to pay income tax at the effective rate of 25.17%, and the option (once exercised) cannot be subsequently withdrawn. Further, in order to provide relief to companies which continue to avail themselves of certain specified tax exemption(s)/incentive(s), the MAT rate has been reduced from 18.5% to 15%. As the Group's Indian subsidiaries have opted for effective income tax rate of 25.17%, it has significantly reduced their tax burden, and in addition, with this option, they do not need to pay minimum tax as per the MAT provision.

Apart from the above, the Group also takes into account the relevant laws and regulations regarding global 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 more documentation requirements triggered by the local transfer pricing documentation and Country-by-Country Reporting (CbCR) obligations in the jurisdictions where the Group operates. The Group falls within 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 and tax 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.

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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 2019 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 2019, the Group had a cash balance of US\$1,545 million (31 December 2018: US\$1,419 million). Free cash flow, representing the net cash used in operating activities of US\$455 million (31 December 2018: net cash used in operating activities of US\$814 million) minus capital expenditure of US\$210 million (31 December 2018: capital expenditure of US\$277 million), was US\$665 million outflows (31 December 2018: US\$1,091 million outflows). Free cash flow improved 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\$606 million (31 December 2018: US\$1,427 million) over total assets of US\$7,003 million (31 December 2018: US\$8,904 million), was 8.65% (31 December 2018: 16.03%). All of the external borrowings were denominated in USD (U.S. dollars) and INR (31 December 2018: 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 2.14% to 7.85% (31 December 2018: fixed rate ranging from 2.76% to 4.40%) per annum with an original maturity of one to six months (31 December 2018: two to twelve months).

As at 31 December 2019, the Group's cash and cash equivalents were mainly held in USD and RMB.

Net cash used in operating activities during the current period was US\$455 million.

Net cash from investing activities during the current period was US\$1,444 million, of which, mainly, US\$210 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC and India, US\$1 million represented acquisition of equity instruments at fair value through other comprehensive income, US\$0.7 million represented acquisition of convertible notes, US\$46 million represented withdrawal of bank deposits, US\$1,040 million represented purchase of short-term investments, US\$1,209 million represented proceeds from disposal of financial assets at fair value through profit or loss, US\$12 million represented proceeds from disposal of equity instruments at fair value through profit or loss, US\$10 million represented proceeds from disposal of property, plant and equipment, US\$5 million represented proceeds from disposal of land use right classified as right-of-use assets, US\$1,414 million represented proceeds from settlements of short-term investments and US\$0.2 million represented proceeds from disposal of an associate.

Net cash used in financing activities during the current period was US\$871 million, primarily due to net decrease in bank borrowings of US\$818 million, interest paid on bank borrowings of US\$39 million, interest paid on lease liabilities of US\$1 million, repayment of lease liabilities of US\$10 million and payment on repurchase of the Company's shares of US\$2 million.

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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. As mentioned above, the Group has modified the currency settlement mechanism business model with its customers for India business in the second half of 2019, therefore the exposure to INR is expected to be decreased in 2020.

Capital Commitments

As at 31 December 2019, the capital commitments of the Group was US\$11.1 million (31 December 2018: US\$7.9 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 2019 and 31 December 2018.

Donations

The Group has, in the financial year ended 31 December 2019, made donations for charitable or other purposes to a total amount of approximately US\$7,000.

Outlook

Global smart phone shipments have declined for three consecutive years due to saturation in certain markets and lower than expected growth in others. Before the outbreak of the coronavirus, IDC estimated smart phone shipments to rebound from 2020, and the smart phone shipments will grow slightly from 1.38 billion in 2019 to 1.49 billion in 2023 mainly due to the ambitious 5G plans in China and aggressive product pricing for the market to grow. In addition, faster than expected adoption in entry level 4G smart phones in emerging and developing countries will lead to a continuous decline in feature phone shipments from 416 million in 2019 to 240 million in 2023, resulting in a CAGR of -13%. After the coronavirus outbreak, IDC updated the estimation stating that China smart phone shipment would decrease more than 30% year-on-year in the first quarter of 2020, but thanks to the roll out of 5G phones, the smart phone ASP would increase around 10% when compared to 2019. Counter Point Research also predicts that 5G phone shipments would reach 150 million in China in 2020, which will account for 56% of the global 5G phone market. The other important mobile phone market — India, IDC expects double-digit growth in 2020 will be difficult to achieve because the ASP of smart phone is expected to rise by 8.5% to around US\$220 in 2020 and the replacement cycle has been extended from 12–16 months to 20–24 months, and Counter Point Research echoes the prediction on shipment with a single-digit growth of 6%–9% in 2020 due to low demand of feature phones. In U.S., IDC expects the year 2020 smart phone ASP would grow more than 20% to US\$647 compared to 2019, but the longer lifecycle will cause a slight decline of shipments of less than 1%.

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In addition to rapid technology advancements and shifts in customer preference in the mobile phone industry, the recent geoeconomic risks will also have a significant influence on this market. On 22 March 2018, to make changes to what the U.S. said was “unfair trade practices”, U.S. President Trump introduced tariffs on US\$60 billion worth of Chinese goods, kicking off the U.S.-China trade war and escalating the war of words between the world’s two largest economies into a full-blown trade conflict. With the market concerns around the U.S.-China trade war and its effects on China’s weakening economic growth, the RMB dropped to its lowest point (7.18 to the dollar) in more than a decade in August 2019. Apart from impact to the RMB, more than 50 global companies, including Apple and Nintendo, have already announced plans to move production out of China due to U.S.-China trade war according to Nikkei research. United Nations’ analysis published in November 2019 also found that China’s export losses in the United States have resulted in trade diversion effects to the advantage of Taiwan in the communication equipment and office machinery sector and Vietnam in communication equipment sector. After almost two years in trade dispute between the two power countries, U.S. and China have finally reached a truce and formally signed the phase one trade agreement on 15 January 2020. China has committed to increasing its U.S. imports by at least US\$200 billion over 2017 levels, boosting purchases of agriculture by US\$32 billion, manufacturing by US\$78 billion, energy by US\$52 billion and services by US\$38 billion for the next years. And the agreement also covered some key topics including intellectual property, tech transfer and currency enforcement. However, the phase one deal is just the beginning. The US will maintain up to 25% tariffs on an estimated US\$360 billion worth of Chinese goods as Trump said the remaining tariff would be the point of the following negotiation. Although no further tariff cut in the phase one trade deal but as the deal helps to ease the tensions of trade war, the offshore RMB strengthened 0.1% to 6.89 per dollar following the announcement of phase one agreement. On 6 February, as to advance the healthy and stable development of U.S.-China trade, China’s Customs Tariff Commission of the State Council has published a statement to halve the tariff on US\$75 billion worth of U.S. import good starting from 14 February, the decision will drop 10% tariffs on some goods to 5%, other tariffs will go down to 2.5% from 5%. There is still a possibility that the trade war may intensify in the future in the absence of agreement on a phase two deal. Especially, as the U.S. election nears, the U.S. may take a tougher stance to gain support of voters. The bipartisan support for a tougher stance may increase the likelihood that the trade war continues, with the possibility of intensifying in the future, especially Trump said his administration will start negotiating the phase two U.S.-China trade agreement soon but that he might wait to complete any agreement until after November’s U.S. presidential election.

The U.S. Department of Commerce has disrupted the smart phone industry by placing Huawei Technologies Co. Ltd. (“Huawei”) and its affiliates on its “entity list” on 16 May 2019, which prohibits it from buying, selling or using anything from technology to components from U.S. firms. The loss of Huawei as a major player in the global smart phone market could also have a wider impact on the smart phones other vendors are pushing out. The Chinese brand’s aggressive development of new technological capabilities has forced rivals to significantly improve their devices and push out new advancements of their own, and any diminution of its influence would likely slow the rate of development. On 19 August 2019, the U.S. Commerce Department extended the reprieve for 90-day, so that the American companies can continue to work with Huawei. According to IDC, while other vendors saw a decline in shipments, Huawei’s global phone shipment increased 28% year-on-year worldwide for the third quarter of 2019 mainly due to the growth of 65% year-on-year in China. On 18 November 2019, Huawei received another 90-days reprieve of the ban from Trump’s administration, and recently the administration issued a further 45-days extension on 13 February 2020, so the ban is now set to take effect after the beginning of April 2020. However, before the signing of phase one agreement with China on 15 January, the U.S. pressured British officials to block Huawei from its 5G network, and U.S. senators proposed over US\$1 billion in 5G subsidies to counter Huawei dominance on 14 January 2020, which shows the uncertainty that Huawei will continue to face in the future. Nevertheless, on 29 January 2020, U.K. allowed Huawei to build part of its 5G network considering the cost and roll-out schedule when comparing to other telecom equipment companies. Although the ban was postponed, according to Tom Kang, analyst of Counterpoint, it may still impact Huawei’s overseas shipment in Europe, Japan or Latin America due to Huawei being unable to use Google Mobile Services (GMS) and the high dependence of consumers in those nations on GMS. At the same time, Huawei, to mitigate risk of component shortage due to the entity list, is continuing to seek secondary sources for U.S. imported key components. The Group will closely monitor the progress of the trade war and the resulting impact. It is expected that the Group’s expansion of its operations in India and Vietnam, which helps its customers relocate their production will help to mitigate the adverse impact.

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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. China, still the world’s largest smart phone market with roughly one third of all smart phones consumed, faced both challenges and opportunities this year. On the bright side, China smart phone sales volume narrowed its decline to -6.2% year-on-year in 2019 from the -15.6% decline in 2018 according to CAICT (the China Academy of Information and Communications Technology). Before the outbreak of COVID-19, the IDC Worldwide Quarterly Phone Mobile Tracker even shows that the worldwide smart phone market is predicted to grow 1.5% year-on-year in 2020 with shipments totaling 1.4 billion, of which 5G smart phones will account for 14% or 190 million pieces. The chip maker Qualcomm and chip contract manufacturer TSMC predict close to 200 million 5G phones will ship in 2020, and Qualcomm even further predict around 450 million 5G phones will ship in 2021. Based on the latest China Mobile Phone Market report issued by CAICT on 9 January 2020, more than 10 million 5G phones had been shipped just in the last two months of 2019 in China. With the expectation of accelerated adoption of 5G phones as phone ASPs come down, the China market may be able to slow down the sales volume decline.

Although the decline in Chinese market is slightly improved, the top five brands of the China handset market 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 a historical high 93.5% of China domestic market share in 2019 when compared with 87.5% 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 in the past, our peers faced similar aforementioned risks and have chosen to diversify their product mix.

The continuous decline in the Chinese market in the past few quarters led to a decline in the overall growth of some key Chinese brands. These brands have been investing in countries and regions outside China to offset the weak demand in the domestic market and the impact from U.S.-China trade war. The key markets for Chinese brands expansion so far are India, South-East Asia, Europe, Middle East and Africa. The Group has helped these Chinese brands to expand and internationalise rapidly in overseas markets, and these customers want to further 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. In addition, as the Group acquired a manufacturing facility in Vietnam on 18 May 2016, various customers have undertaken the necessary steps to move their manufacturing to Vietnam during 2019 as a precaution, and the Group has expanded its capacity and capability there to meet its customers’ need. Through the localization of raw materials, the Group is further reducing the cost and improving the quality of its Vietnam facility and the capacity so that the Group could better serve its customers in the future.

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From product perspective, with the popularity of innovation and technology, the smart phone industry has become commoditised and highly homogenised products with standardized 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 RAM capacity, higher penetration of OLED screens, under screen fingerprint, artificial intelligence (AI), facial recognition, AR/VR/3D modeling and 5G functionalities. Furthermore, the average unit price of the overall smart phone is expected to reach US\$416 in 2022, an increase of 28% compared with 2018, while 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 the Group is continuing to invest in the future and is 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 unibody metal casing to middle frame with glass/"Glastic" back cover. A few peers of the Group also engaged in the research and development of antenna for 5G station or smart phone, trying to diversify their product mix and grow their revenues. The Group has devoted non-stop effort to satisfy customers' demand in product innovation and cost competitiveness with the expectation to increase the utilisation of manufacturing equipment and facilities of the Group, which ultimately will benefit the gross profit.

As the smart phone industry is dynamic and competitive, a slowdown in growth leads to industry consolidation, which results 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), which 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 agile by making quick business and operational decisions. 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 kept investing in research and development and cultivates research talents to secure the competency and 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.

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The Group has dedicated PD (Product Development)/PM (Product Manufacturing) and R&D teams that are composed of experienced talents with superior industrial design capabilities and solid experiences in mass production, which makes the Group has its own capabilities of creation, qualities, yield rate, mass production, and customized design and 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 Group's ability to continuously upgrade its technology and stay ahead of Chinese competitors will be a big determinant in the Group being able to maintain competitive advantage and secure higher margins. The R&D team will continue to innovate on technologies and products such as industrial design, image and audio quality, user experience, AI technology, data module, network product, A IoT devices and automotive product, innovate existing and beyond mobile products, and 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.

In light of the poor performance of the Group in the past two years and the difficulties 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 at the end of 2018 that HMD will not only seek the Group's support but will also contract with other ODMs to enhance its supply chain flexibility, and cost and price competitiveness at the end of 2018. In 2019, the Group continued to manufacture HMD's second and third generation/wave smart phone products, which have been introduced in the market for a period of time, until the end of the product lifecycle and design and manufacture Nokia-branded feature phone programs and smart phone programs of satisfactory margin for some overseas markets. During 2019, the change in the collaboration model decreased the loss making sales to HMD but at the same time greatly reduced gross loss contributed to this customer. The drop in sales brought about by HMD's new direction was partially offset by sales to U.S. internet companies and other existing Chinese customers. The Group's cessation of its logistics and distribution business as of 1 January 2019 has resulted lost distribution income for the Group that would have otherwise been generated from that business (sales income from logistics and distribution business for the year ended 31 December 2018 totaled around US\$61.77 million). However, selling expenses which were incurred to generate distribution income have been reduced significantly in 2019. As a whole, the Group's gross margin turned profitable in the first half of 2019, followed by a net profit from the continuing operations in the second half of 2019. However, margin erosion pressure of system assembly and casing businesses will continue to persist and the Group has attempted and implemented various measures to mitigate the impact and foster long term relationships with customers to improve P&L performance.

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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 Ways. The Groups has disposed all holding in Ways ordinary shares in the first half of 2019 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 2020.

The mobile phone manufacturing business is facing various new challenges and opportunities, which have not been encountered before. Although the saturation of the smart phone market has also exerted tremendous pressure (margin erosion) on the entire handset industry, the shipment decline observed slightly improved due to strong performance by certain Chinese brand customers in the third quarter of 2019. Additionally, the Group also expects organic growth from other customers of the Group in 2020. Although the Group has been doing OEM, ODM and IDM for mobile phone manufacturers for years, the Group will pursue new opportunity and engage in relevant products including 5G phones and other 5G devices as well to ensure competitiveness in the upcoming 5G era.

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 low labour costs, 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. The recent trade war of China with the U.S. especially highlighted the need of changing the mix of China’s GDP. China published a 6.0% year-on-year GDP growth rate in the third and fourth quarter of 2019, which hit the 27 years low. The 2019 full year GDP growth of 6.1% was in line with market expectations but substantially lower than 2018 6.6% GDP growth. As the ongoing trade war and sluggish global demand, IMF even expects China’s GDP to further decrease in the upcoming year. In addition, it is worth noting that China’s corporate debt has been rising in the previous years and an increasing number of defaults has been observed due to the sluggish economy, which indicates the rising credit risk of China.

China’s traditional OEM and manufacturing industry is facing huge challenges and with the declining support from the government, the industry has to transform and upgrade from an existing “world factory” to the “artificial intelligent leader” and incorporate automation in order to survive. That is the reason why the Group is introducing the “Industry 4.0” smart manufacturing paradigm to reduce manufacturing costs and maintain competitive advantage. However, implementation of Industry 4.0 will take time and the Group is now making effort on this.

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in 2020. 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 Company’s 2018 annual report as issued and published on 9 April 2019, bearing in mind that the Company’s 2019 annual report (incorporating its 2019 corporate governance report) is tentatively scheduled to be issued and published in April 2020.

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

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Risks Pertaining to the Handset Business

As mentioned above, there is a year-on-year decline in handset shipments due to the smart phone market saturation. Pricing pressure has also been higher than expected. 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 margin performance and continue to monitor the impact of factors affecting business of customers and its financial health. For the Nokia-branded smart phone business, the Group has become selective when receiving orders from HMD and HMD can engage external ODMs. Handset market is highly dynamic and competitive and there are negative factors such as unfavourable product mix, increasing pricing pressure and price hikes in components and it is extremely challenging to simultaneously maintain market share and defend against margin erosion pressure while remaining cost competitive, lean and agile, and technologically advanced.

5G is increasingly touted as game-changing technology. However, in regards to 5G devices, it is anticipated that most consumers may not be willing to buy 5G phone at this moment due to its high price and the uncompleted ramp-up of 5G networks. In addition to this, consumers may also not be willing to buy 4G devices during such transition period from 4G to 5G, and may wait for the second generation of 5G phones with a lower price. According to a GSMA report, 5G is on track to account for only 15% of global mobile connections by 2025, as a number of 5G network launch and production of compatible devices ramp up in 2019.

Risk Associated with Trade War

Although the direct impact of tariff increases on the 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. The Trump administration has put Huawei to its entity list in May 2019, which prohibits U.S. hardware and software companies from doing business with Huawei. By doing so, it adversely weakens Huawei's ability to compete in the fierce smart phone market. Fortunately, on 19 August 2019, U.S. Commerce Department extended the reprieve for 90-day, so that American companies can continue to work with Huawei. According to IDC, while other vendors saw decline, Huawei's global phone shipment increased 16.8% year-on-year worldwide for 2019, mainly due to a growth of 33.9% year-on-year in China. On 18 November 2019, Huawei received another reprieve of the ban from Trump's administration, so the ban is now set to take effect after 16 February 2020. At the same time, Huawei is continuing to seek others sources for U.S. imported key components to mitigate risk of component shortage due to the entity list.

Additionally, the trade war has also hit India's economy. On 5 June 2019, the United States ended duty-free access for about US\$5.7 billion worth of Indian exports under its Generalized System of Preferences (GSP) program, including chemicals, plastics, leather and rubber goods, and auto parts. India responded with higher retaliatory tariffs on 28 US products, including almonds, apples and walnuts. The Indian Rupee then fell down to 71.26 against the US dollar on 6 August 2019. According the estimation by India Kotak Mahindra Bank, the USD/INR exchange rate is expected to further depreciate to 72.5 in 2020. So far U.S. and India have come close to a deal like the phase one agreement between US and China but not been able to seal it. The Group will continue monitoring the impact and devise counter measures if necessary.

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Reliance on Key Customers

The Group's five largest customers account for 90.02% of the Group's total revenue. The Group has strong established relationships with these major customers and it is a big challenge to maintain bargaining power with these 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 and general economy may deteriorate, the Group will keep monitoring credit position of customers and assess default risks. HMD started Series B funding round during the first half of 2019. This is the third funding round for HMD after seeding round in start-up phase, and Series A that was closed in the second quarter of 2018. Main purpose of Series B round is to collect funding to deliver growth plan, strengthen the balance sheet and expand the investor base. HMD is striving to close the Series B funding round in the first half of 2020 to reach a more healthy cash flow position. The Group's finance team will continue to monitor closely cash position and credit status of HMD. Regarding the U.S. Government's blacklisting, export controls and bans against one of the Group's major customers, as things keep changing, the Group will continue to monitor and assess the impact and take necessary steps to mitigate the risks and the Group will dedicate resources to serve all customers and foster long term business relationship. The core business of one key customer is not in mobile phone sector and any change to the business strategy of this customer may affect our sales to this customer.

Reliance on Key Suppliers

Please refer to section "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and how to mitigate such risk. The risk of shortage due to excessive concentration of purchasing sources remains low.

Foreign Exchange Risks

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

2019 Novel Coronavirus (COVID-19) Outbreak

Based on the information from CDC (Centers for Disease Control and Prevention), a novel coronavirus (COVID-19) is a new coronavirus that has not been previously identified and COVID-19 is a new virus that causes the outbreak of respiratory illness which was firstly identified on 8 December 2019 in Wuhan, Hubei Province, China. With the rapid increasing number of confirmed cases, the WHO (World Health Organization) has declared the outbreak of COVID-19 a global public-health emergency and further heightened the global response to this outbreak.

In order to block the possible spread of COVID-19, The General Office of the State Council of China announced the extension of Chinese New Year Holiday to 2 February 2020, which was originally to end on 30 January 2020 yet, most local governments took conservative measures to further extend the reopen of the factories to 10 February 2020. With all the effort to guarantee a safe working environment for the Group's employees and in compliance with local government's disease control policy, the Group has decided to extend the Chinese New Year Holiday and temporary closed its factories in China and follows the local governments guidelines for the reopening.

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In the meantime, the Group cannot meaningfully estimate the economic impact of COVID-19 as there are enormous number of uncertainties and the ripple effects are already happening in not only supply side but also the demand side. The decrease in working days from 12 weeks to 11 weeks and the other 2 weeks quarantine period for the employees who were returned from other provinces inevitably create the stress on the Group's manufacturing capacity among the factories in China and the same situation is happening to the entire supply chain and impacting suppliers' cash flow, which could reverberate longer than the immediate crisis. On the demand side, according to Bloomberg article published on 4 February 2020, the spending during the Chinese New Year Holiday week was topped US\$143 billion last year, as the outbreak happened during the holiday week this year, it undisputedly stopped all the retail activities as most shops were shut down for safety reasons and consumers were forced to stay home. For smart phone segment, Counterpoint Research estimated the global market will ship -2% fewer smart phones than expected in 2020, due to the fear and "paralysis" caused by the virus and China market will take the biggest impact with a 5% smart phone shipments decline. Furthermore, the world's largest exhibition for the mobile industry and upcoming flagships introductions among the mobile companies, MWC Barcelona 2020 event was cancelled by the GSMA on 12 February 2020 with due regard to the safe and healthy environment in Barcelona. On 11 March 2020, WHO officially declared COVID-19 a "Pandemic", which has spread to 119 more countries apart from China. Some of the top 10 infected countries are the ones have significant economic and technical influence such as China, U.S., U.K., Japan and South Korea. According to Bloomberg's report published on 6 March 2020, in the worst case scenario, the economic fallout could include recessions in the U.S., Euro-area and Japan, the slowest growth on record in China, and a total of US\$2.7 trillion in lost output — equivalent to the entire GDP of the U.K. To limit the virus spread, so far more than 70 governments have banned entry to travelers who have been to affected regions, and many high tech companies in Europe and North America including Google, Apple and Amazon had moved to "work from home" in face rising COVID-19.

The Group has been closely monitoring the current public health challenge linked to COVID-19 and applying all recommended health and hygiene practices and following local government's health safeguards to combat coronavirus to all aspects of our operations in the affected markets. The Company will keep COVID-19 impact under review and introduce measures to mitigate the impact.

Cyber Risk Controls

Regarding cyber risk, the Group has in place an information/cyber 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 strictly so that the cyber security risks can be managed and controlled across the organisation (particular for the network control) and make sure machine and system operate well and avoid any information leakage. 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.

The outbreak of COVID-19 in Mainland China and the subsequent quarantine measures imposed by the Mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had some negative impacts on the operations of the Group, as a lot of the Group's operations are located in Shenzhen, Langfang and Guiyang in Mainland China. The Group had to postpone its manufacturing since the end of the Chinese New Year

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Holiday in late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group had re-opened all of its factories in Mainland China stage by stage since 10 February 2020, but they are still not operating at normal capacity due to self-quarantine procedure, logistics, and travel restrictions. In light of the reduction in scale of the Group's manufacturing activities after the current period, the Group has had to re-arrange the shipment without violating any customer contract terms. In addition, as the operations of some of the Group's customers, suppliers, associates, joint ventures and investees are located in Mainland China, the outbreak of COVID-19 is expected to have a negative impact on these parties. Because of the quickly-evolving nature of COVID-19's spread and evolution, the Company considers it is too early and difficult to predict with any precision what impact that outbreak might have on the Group's performance for the six months ending 30 June 2020. The challenging conditions that the Group has faced since late 2017 have continued into 2020. The Group's gross margins generally have also continued to come under pressure from competition. However, the Company has been working hard and doing everything that it reasonably can to maximise its performance through these challenging times. The Company will keep matters under close review as the first quarter of 2020 progresses, and will make further announcements, as necessary, to keep shareholders and potential investors informed.

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 currently expected to be in or about May 2020) certain unaudited consolidated financial information of the Group for the three months ending 31 March 2020, 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 ecosystem and macro-economic environment (e.g. intensifying trade wars and political conditions) and industry generally and related changes in consumer demand, price wars, seasonality of sales, decline in the first quarter of 2020 of shipment and contribution margin due to the Chinese New Year Holiday and COVID-19, factors relating to the supply chain (e.g. component costs, sourcing and shortage and inflationary rate) and to inventory (e.g. accumulated inventory may take time to clear and may have to be written-off), 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' demand and preferences and propensity to spend (e.g. in-house manufacturing instead of outsourcing), changes in money markets (e.g. fluctuation of interest rates and foreign exchange rates) and capital markets, sales and product mix changes, commodity price changes, technology advancement, and market/legal/regulatory/tax/fiscal and monetary/government policy/tariff changes (e.g. changes of custom duty rates, government's blacklisting, export controls and bans against the Group's major customer). 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.

REPORT OF THE DIRECTORS

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's solid waste management guidelines provide directions on how to differentiate, control, reduce, dispose of,

REPORT OF THE DIRECTORS

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. In relation to energy management and GHG emission reduction, during the current period, major technology upgrades have been made in certain production facilities at Langfang, the PRC (which obtained the ISO50001 energy management system certification), including the introduction of a variety of energy-efficient equipment, including vacuum generators with electropermanent magnets, an inverter air conditioner, low-GWP (global warming potential) refrigerants and a new water pump model. The Group's continual efforts resulted in a year-on-year reduction of energy consumption of 8.09 TJ (Terajoule, an energy measurement unit equivalent to 10^{12} joules).

RESERVES

Movements in reserves of the Group during the current period are set out on page 83.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution amounted to approximately US\$1,767,035,000.

SHARE CAPITAL

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

During the current period, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 10 April 2019) duly approved by the Company's shareholders at the Company's annual general meeting held on 17 May 2019, the Company bought back in multiple batches a total of 11,074,906 shares on the Stock Exchange in cash. Among these shares so bought back, 2,667,000 shares were cancelled on 11 December 2019, whereas the remaining 8,407,906 shares were cancelled on 7 January 2020, in both cases in accordance with the articles of association of the Company in force for the time being (the "Articles"). For details, please refer to the section headed "Purchase, Redemption or Sale of Listed Securities of the Company" below.

Further, no shares of the Company were allotted or issued during 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 164.

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 14 and 16 to the consolidated financial statements, respectively.

BANK LOANS

Details of bank loans are set out in note 26 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

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 2019 corporate governance report, which forms part of the annual report incorporating this report of the directors.

For more details, please refer to the “Other Information — Directors” section of the Company’s 2019 interim report as issued and published on 9 September 2019.

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. WANG Chien Ho and Mr. TAO Yun Chih will retire by rotation at the Company’s forthcoming annual general meeting and, being eligible, they will offer themselves for re-election at such meeting.

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.

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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 of the Cayman Islands (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 2019, 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 as set out in Appendix 10 to the Listing Rules (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	0.2525%
	Hon Hai	Personal Interest	308,075	0.0022%
	CMCS (Note)	Personal Interest	1,000	0.0007%
KUO Wen-Yi	The Company	Interest of Spouse	700,000	0.0085%
	Hon Hai	Personal Interest	1,848	0.00001%
	Hon Hai	Interest of Spouse	13	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.

REPORT OF THE DIRECTORS

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2019, 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 2019, 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 (<i>Note 1</i>)	Beneficial owner	5,081,034,525	61.88%
Hon Hai (<i>Notes 1 and 2</i>)	Interest of a controlled corporation	5,081,034,525	61.88%

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 2019, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

REMUNERATION OF SENIOR MANAGEMENT

The remuneration 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\$1,000,001 to HK\$1,500,000	2
HK\$1,500,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$2,500,000	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, 8 March 2018, 9 October 2019 and 29 October 2019, respectively, circulars relating to continuing connected transactions dated 1 September 2016, 8 May 2017, 30 August 2017 and 14 November 2019, respectively, and announcements dated 21 September 2016, 25 May 2017, 21 September 2017 and 6 December 2019, 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, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) and 鴻準精密工業股份有限公司 (Foxconn Technology Co. Ltd. for identification purposes only, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) (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, components and other products that may be used in the businesses of the Group from time to time as approved by the Group’s customer (the “Approved Vendor”), 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.

REPORT OF THE DIRECTORS

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Purchase Agreement (the “Purchase Transaction”) constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Purchase Transaction for the three years ended 31 December 2019.

Hon Hai is the leading player in the computer, communication and consumer electronics (“3C”) manufacturing services industry. Under the convergence trend of the 3C industries, an increasing number of types of materials, components and other products 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.

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the Purchase Agreement (the “Supplemental Purchase Agreement”), which would become effective only after obtaining the approval by the Company’s shareholders other than Hon Hai and its associates (as defined in the Listing Rules) (the “Independent Shareholders”), to (among other things) re-entitle the Purchase Agreement as the framework product supply agreement and also extend the term of the Purchase Agreement for three years from 1 January 2020 to 31 December 2022.

On the same date, the Company also proposed annual caps for the Purchase Transaction for the three years ending 31 December 2022 at US\$1,889 million for 2020, US\$2,335 million for 2021 and US\$2,886 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- the historical growth rate of turnover of the Group during the then current term of the Purchase Agreement;
- the anticipated increase in the purchase of materials or components (or other products) from the Hon Hai Group to meet the production needs of the Group due to the increasing number of types and variety of materials and components (and other products) manufactured, owned or held (coupled with interest) by the Hon Hai Group; and
- a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in customer demand and/or unexpected increase in the cost of supply, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2022 for the Purchase Transaction, the Purchase Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Purchase Transaction, the Supplemental Purchase Agreement and the proposed annual caps for the three years ending 31 December 2022 were subject to the approval of the Independent Shareholders. On 6 December 2019, the Purchase Transaction, the Supplemental Purchase Agreement and the relevant proposed annual caps for the three years ending 31 December 2022 were approved by the Independent Shareholders at the Company’s extraordinary general meeting.

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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, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hoi) 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 "Framework 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 Framework Product Sales Agreement (the "Product Sales Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Product Sales Transaction for the three years ended 31 December 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.

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the Framework Product Sales Agreement (the "Supplemental Product Sales Agreement"), which would become effective only after obtaining the approval by the Independent Shareholders, to (among other things) extend the term of the Framework Product Sales Agreement for three years from 1 January 2020 to 31 December 2022.

On the same date, the Company also proposed annual caps for the Product Sales Transaction for the three years ending 31 December 2022 at US\$2,290 million for 2020, US\$2,830 million for 2021 and US\$3,498 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- the growth rate of the transaction amounts during the then current term of the Framework Product Sales Agreement;

REPORT OF THE DIRECTORS

- the Product Sales Transaction during the past two financial years more focused on customers who were independent third parties in an attempt to broaden the Group's customer base. It is expected that the total transaction amount of the Product Sales Transaction for the years of 2020, 2021 and 2022 will increase due to the expansion of the scope of the products of the Group to be sold to cover such products (including but not limited to materials and components, and finished goods generally) manufactured, owned or held (coupled with interest) by the Group that may be used in connection with or for the purposes of the businesses of the Hon Hai Group from time to time; and
- a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2022 for the Product Sales Transaction, the Product Sales Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Product Sales Transaction, the Supplemental Product Sales Agreement and the proposed annual caps for the three years ending 31 December 2022 were subject to the approval of the Independent Shareholders. On 6 December 2019, the Product Sales Transaction, the Supplemental Product Sales Agreement and the relevant proposed annual caps for the three years ending 31 December 2022 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Non-real Property Lease Expense Transaction

Pursuant to the framework lease agreement relating to movable non-real properties dated 13 June 2013 (as amended by the respective supplemental agreements dated 17 October 2013 and 11 August 2016) between the Company and Hon Hai (the "Framework 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 at a price determined as follows:

- (a) the rental payable by the Group under the transactions contemplated under the Framework 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; or
- (b) 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; or
- (c) if both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Non-real Property Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Non-real Property Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Non-real Property Lease Expense Transaction for the three years ended 31 December 2019.

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In carrying out the Product Sales Transaction and other manufacturing projects, the Group may require the use of the Non-real Properties (including but not limited to specialised equipment and machines). By leasing such Non-real Properties from the Hon Hai Group, the Group may gain access to the use of such Non-real Properties at rental rates agreeable to the Company saving capital expenditures.

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the Framework Non-real Property Lease Expense Agreement (the "Supplemental Non-real Property Lease Expense Agreement"), which would become effective only after obtaining the approval by the Independent Shareholders, to extend the term of the Framework Non-real Property Lease Expense Agreement for three years from 1 January 2020 to 31 December 2022.

On the same date, the Company also proposed annual caps for the Non-real Property Lease Expense Transaction for the three years ending 31 December 2022 at US\$25 million for 2020, US\$32 million for 2021 and US\$43 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- the growth rate of the transaction amounts during the then current term of the Framework Non-real Property Lease Expense Agreement;
- the anticipated increase in the total transaction amount of the Product Sales Transaction for the years of 2020, 2021 and 2022 as the Group may require the use of some specialised equipment and machinery by leasing from the Hon Hai Group so as to carry out the Product Sales Transaction and other manufacturing projects; and
- a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2022 for the Non-real Property Lease Expense Transaction and in view of the connections between the Non-real Property Lease Expense Transaction and the Product Sales Transaction, the Non-real Property Lease Expense Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Non-real Property Lease Expense Transaction, the Supplemental Non-real Property Lease Expense Agreement and the proposed annual caps for the three years ending 31 December 2022 were subject to the approval of the Independent Shareholders. On 6 December 2019, the Non-real Property Lease Expense Transaction, the Supplemental Non-real Property Lease Expense Agreement and the relevant proposed annual caps for the three years ending 31 December 2022 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

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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) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on 24 October 2007, pursuant to which (among other things) all respective rights, obligations and liabilities of PCE Industry Inc. and Sutech Industry Inc. thereunder were assumed and taken up by Hon Hai and the Company respectively (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 ended 31 December 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.

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the Consolidated Services and Sub-contracting Expense Agreement (the "Supplemental Consolidated Services and Sub-contracting Expense Agreement"), which would become effective only after obtaining the approval by the Independent Shareholders, to extend the term of the Consolidated Services and Sub-contracting Expense Agreement for three years from 1 January 2020 to 31 December 2022.

On the same date, the Company also proposed annual caps for the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2022 at US\$335 million for 2020, US\$414 million for 2021 and US\$512 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;

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- the growth rate of the transaction amounts during the then current term of the Consolidated Services and Sub-contracting Expense Agreement;
- the Group intends to engage the Hon Hai Group to provide more services under the Consolidated Services and Sub-contracting Expense Transaction (including but not limited to research and development services, and design services) to meet their production needs which can provide the Group with greater flexibility in cost-effective capacity planning and better cost control by not having to purchase additional equipment or recruit additional staff for manufacturing some customised products, in particular; and
- a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2022 for the Consolidated Services and Sub-contracting Expense Transaction, the Consolidated Services and Sub-contracting Expense Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Consolidated Services and Sub-contracting Expense Transaction, the Supplemental Consolidated Services and Sub-contracting Expense Agreement and the proposed annual caps for the three years ending 31 December 2022 were subject to the approval of the Independent Shareholders. On 6 December 2019, the Consolidated Services and Sub-contracting Expense Transaction, the Supplemental Consolidated Services and Sub-contracting Expense Agreement and the relevant proposed annual caps for the three years ending 31 December 2022 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Equipment Purchase Transaction

Pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013 and 11 August 2016) between the Company and Hon Hai (the "Framework 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:

- at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Group; or
- if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or
- 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
- 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.

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Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Equipment Purchase Agreement (the “Equipment Purchase Transaction”) constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Purchase Transaction for the three years ended 31 December 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 the Hon Hai Group’s accounts. It is also more convenient for the Group to obtain the required maintenance services for the customised equipment from the Hon Hai Group.

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the Framework Equipment Purchase Agreement (the “Supplemental Equipment Purchase Agreement”), which would become effective only after obtaining the approval by the Independent Shareholders, to (among other things) extend the term of the Framework Equipment Purchase Agreement for three years from 1 January 2020 to 31 December 2022.

On the same date, the Company also proposed annual caps for the Equipment Purchase Transaction for the three years ending 31 December 2022 at US\$109 million for 2020, US\$135 million for 2021 and US\$167 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- the growth rate of the transaction amounts during the then current term of the Framework Equipment Purchase Agreement;
- it is expected that the Group may increase the purchase of equipment and machinery from the Hon Hai Group as some of the existing equipment and machinery of the Group need to be replaced and may need to purchase some specialised equipment and machinery for certain manufacturing processes; and
- a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2022 for the Equipment Purchase Transaction, the Equipment Purchase Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Equipment Purchase Transaction, the Supplemental Equipment Purchase Agreement and the proposed annual caps for the three years ending 31 December 2022 were subject to the approval of the Independent Shareholders. On 6 December 2019, the Equipment Purchase Transaction, the Supplemental Equipment Purchase Agreement and the relevant proposed annual caps for the three years ending 31 December 2022 were approved by the Independent Shareholders at the Company’s extraordinary general meeting.

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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 ended 31 December 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.

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the Sub-contracting Income Agreement (the "Supplemental Sub-contracting Income Agreement"), which would become effective only after obtaining the approval by the Independent Shareholders, to (among other things) extend the term of the Sub-contracting Income Agreement for three years from 1 January 2020 to 31 December 2022.

On the same date, the Company also proposed annual caps for the Sub-contracting Income Transaction for the three years ending 31 December 2022 at US\$142 million for 2020, US\$176 million for 2021 and US\$217 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- the growth rate of the transaction amounts during the then current term of the Sub-contracting Income Agreement;

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- the Sub-contracting Income Transaction during the past two financial years was mostly entered into with customers who were independent third parties in an attempt to broaden the Group's customer base. It is expected that the total transaction amount of the Sub-contracting Income Transaction for the years of 2020, 2021 and 2022 will increase due to the expansion of the scope of the services to be provided by the Group to cover handset and in-mould labelling and other research and development services, handset and other design services and other services that may form part of or be provided as part of the businesses of the Hon Hai Group from time to time; and
- a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2022 for the Sub-contracting Income Transaction, the Sub-contracting Income Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Sub-contracting Income Transaction, the Supplemental Sub-contracting Income Agreement and the proposed annual caps for the three years ending 31 December 2022 were subject to the approval of the Independent Shareholders. On 6 December 2019, the Sub-contracting Income Transaction, the Supplemental Sub-contracting Income Agreement and the relevant proposed annual caps for the three years ending 31 December 2022 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

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 ended 31 December 2019.

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

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the General Services Expense Agreement to extend the term of the General Services Expense Agreement for three years from 1 January 2020 to 31 December 2022, which supplemental agreement would become effective from 1 January 2020.

On the same date, the Company also set new annual caps for the General Services Expense Transaction for the three years ending 31 December 2022 at US\$30 million for 2020, US\$36 million for 2021 and US\$42 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- the growth rate of the transaction amounts during the then current term of the General Services Expense Agreement; and
- a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

Based on the maximum amount of the new annual caps for the three years ending 31 December 2022 for the General Services Expense Transaction, the General Services Expense Transaction and the relevant supplemental agreement and new annual caps were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements. On 9 October 2019, the Company published the relevant announcement.

Equipment Sale Transaction

Pursuant to the framework equipment sale agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013 and 11 August 2016) between the Company and Hon Hai (the "Framework 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

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- (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 Framework Equipment Sale Agreement (the “Equipment Sale Transaction”) constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Sale Transaction for the three years ended 31 December 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.

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the Framework Equipment Sale Agreement to (among other things) extend the term of the Framework Equipment Sale Agreement for three years from 1 January 2020 to 31 December 2022, which supplemental agreement would become effective from 1 January 2020.

On the same date, the Company also set new annual caps for the Equipment Sale Transaction for the three years ending 31 December 2022 at US\$15 million for 2020, US\$18 million for 2021 and US\$22 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- the historical growth rate of turnover of the Group during the then current term of the Framework Equipment Sale Agreement; and
- a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

Based on the maximum amount of the new annual caps for the three years ending 31 December 2022 for the Equipment Sale Transaction, the Equipment Sale Transaction and the relevant supplemental agreement and new annual caps were exempt from the circular (including independent financial advice) and the Independent Shareholders’ approval requirements. On 9 October 2019, the Company published the relevant announcement.

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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”, which was subsequently replaced by the Company as the party thereto) 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 “Framework 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 at a price determined as follows:

- (a) the rental payable by the Group under the transactions contemplated under the Framework 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; or
- (b) if the average market rental is not available, the rental payable under the Lease Expense Transaction shall be determined on a “cost plus” basis; or
- (c) 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 annual caps for the Lease Expense Transaction for the three years ended 31 December 2019.

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

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the Framework Lease Expense Agreement to extend the term of the Framework Lease Expense Agreement for three years from 1 January 2020 to 31 December 2022, which supplemental agreement would become effective from 1 January 2020.

On the same date, the Company also set new annual caps for the Lease Expense Transaction for the three years ending 31 December 2022 at US\$10 million for 2020, US\$13 million for 2021 and US\$16 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- the growth rate of the transaction amounts during the then current term of the Framework Lease Expense Agreement; and
- A buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

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Based on the maximum amount of the new annual caps for the three years ending 31 December 2022 for the Lease Expense Transaction, the Lease Expense Transaction and the relevant supplemental agreement and new annual caps were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements. On 9 October 2019, 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 "Framework Lease Income Agreement"), the Group has leased to the Hon Hai Group premises owned by it or any part thereof located worldwide 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 at a price determined as follows:

- (a) the rental payable by the Hon Hai Group under the transactions contemplated under the Framework Lease Income Agreement (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; or
- (b) if the average market rental is not available, the rental payable shall be determined on a "cost plus" basis; or
- (c) 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 Lease Income Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Lease Income Transaction for the three years ended 31 December 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.

On 9 October 2019, the Company and Hon Hai entered into a supplemental agreement to the Framework Lease Income Agreement (the "Supplemental Lease Income Agreement") to extend the term of the Framework Lease Income Agreement for three years from 1 January 2020 to 31 December 2022.

On the same date, the Company also set new annual caps for the Lease Income Transaction for the three years ending 31 December 2022 at US\$8 million for 2020, US\$12 million for 2021 and US\$16 million for 2022, which were determined mainly with reference to the following major factors:

- the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- the growth rate of the transaction amounts during the then current term of the Framework Lease Income Agreement; and
- a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

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Based on the maximum amount of the new annual caps for the three years ending 31 December 2022 for the Lease Income Transaction, the Lease Income Transaction and the relevant supplemental agreement and new annual caps were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements. On 9 October 2019, the Company published the relevant announcement.

Other continuing connected transaction

Pursuant to the framework general services agreement entered into between the Company and Hon Hai on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013 and 11 August 2016) (the "General Services Income Agreement"), the Group has agreed to provide, or procure third parties to provide, to the Hon Hai Group general administrative, support, utility and other services as the Group and the Hon Hai Group may agree from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein (the "General Services Income Transaction").

Certain production facilities of the Hon Hai Group are located at premises owned and managed by the Group and leased to the Hon Hai Group under the Lease Income Transaction (the lease of premises by the Group to the Hon Hai Group contemplated under the Framework Lease Income Agreement as amended by the Supplemental Lease Income Agreement). Within such premises, the Group provides a number of general administrative, support, utility and other related services to all tenants, including the Hon Hai Group, which are necessary for the tenants to carry out their operations in such locations. The Hon Hai Group also utilises some other services provided by the Group, such as product testing, specialist inspection and information technology and communication services. The Company considers it in its best interests to generate more income as well as enhance utilisation of its services as long as the services are provided at prices that are considered to be fair and reasonable to the Company.

For the year ended 31 December 2019, the General Services Income Transaction remained a de minimis continuing connected transaction for the Company fully exempt from Independent Shareholders' approval, annual review and all disclosure requirements under the Listing Rules.

As set out in the announcement of the Company dated 9 October 2019 (the "2019 Announcement"), on the date of the 2019 Announcement, the Company entered into a supplemental agreement with Hon Hai to extend the term of the General Services Income Agreement for three years from 1 January 2020 to 31 December 2022. Based on the estimated annual amounts for the three years ending 31 December 2022, the General Services Income Transaction is subject to the reporting, annual review and announcement requirements but exempt from Independent Shareholders' approval under the Listing Rules. The Company has set annual caps for the General Services Income Transaction for the three years ending 31 December 2022 as set out in the 2019 Announcement.

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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 2019 (US\$'000)
Purchase Transaction	Group	1,027,007
Product Sales Transaction	Hon Hai Group	997,226
Non-real Property Lease Expense Transaction	Group	10,733
Consolidated Services and Sub-contracting Expense Transaction	Group	258,863
Equipment Purchase Transaction	Group	43,056
Sub-contracting Income Transaction	Hon Hai Group	41,293
General Services Expense Transaction	Group	16,180
Equipment Sale Transaction	Hon Hai Group	5,772
Lease Expense Transaction	Group	8,096
Lease Income Transaction	Hon Hai Group	4,775

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.

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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 2019 corporate governance report, which forms part of the annual report incorporating this report of the directors.

The related party transactions referred to in note 38 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 a new share scheme (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.

REPORT OF THE DIRECTORS

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 directors, upon and subject to the terms and conditions set out therein) and also potential entitlements to any and all scrip dividends (which any director of the Company may from time to time have as a shareholder of the Company and/or Hon Hai in respect of the relevant shares then held by him/her) pursuant to any scrip dividend scheme in respect of any dividend as may be announced by the Company and/or Hon Hai from time to time, 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 debentures 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 9.23% 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.

REPORT OF THE DIRECTORS

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 40 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.

REPORT OF THE DIRECTORS

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 17 May 2019, 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 164,281,498 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.

During the current period, no shares of the Company were granted under the Existing Share Scheme.

REPORT OF THE DIRECTORS

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 27 March 2020, the total issued share capital of the Company comprised 8,203,000,000 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 164,060,000 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK\$0.88 per share as at 27 March 2020 and the Scheme Mandate being exercised in full, the aggregate market value of the 164,060,000 shares to be allotted and issued pursuant thereto would be approximately HK\$144,372,800. 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 40 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 90.02% 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 32.16%. Purchases from the Group’s five largest suppliers accounted for approximately 71.25% of the Group’s total purchases for the current period and purchases from the Group’s largest supplier amounted to approximately 32.58%.

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.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 10 April 2019) duly approved by the Company's shareholders at the Company's annual general meeting held on 17 May 2019, the Company bought back in multiple batches a total of 11,074,906 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK\$15,563,766.18. Among these shares so bought back, 2,667,000 shares were cancelled on 11 December 2019, whereas the remaining 8,407,906 shares were cancelled on 7 January 2020, in both cases in accordance with the Articles. For details relating to the Buy-back Mandate, please refer to the explanatory statement of the Buy-back Mandate set out in Appendix I to the Company's circular dated 10 April 2019.

The above share buy-backs are summarised as follows:

Date of buy-back	No. of shares bought back	Price per share		Aggregate consideration paid (before expenses) HK\$
		Highest HK\$	Lowest HK\$	
25 November 2019	367,000	1.22	1.22	447,740.00
26 November 2019	300,000	1.24	1.24	372,000.00
27 November 2019	500,000	1.27	1.27	635,000.00
28 November 2019	500,000	1.28	1.28	640,000.00
29 November 2019	500,000	1.28	1.28	640,000.00
3 December 2019	500,000	1.33	1.33	665,000.00
9 December 2019	1,300,000	1.39	1.35	1,784,000.00
11 December 2019	500,000	1.38	1.38	690,000.00
12 December 2019	1,500,000	1.40	1.38	2,080,000.00
17 December 2019	1,031,000	1.45	1.44	1,486,640.00
19 December 2019	26,000	1.50	1.50	39,000.00
20 December 2019	1,500,000	1.51	1.48	2,245,000.00
27 December 2019	1,075,000	1.50	1.48	1,606,000.00
31 December 2019	1,475,906	1.53	1.50	2,233,386.18
	11,074,906			15,563,766.18

For details about each of the above share buy-backs and share cancellations, please refer to the next day disclosure returns and monthly returns as issued and published from 25 November 2019 to 3 February 2020 (both dates inclusive).

The Board believes that the value of the Company's shares traded on-market was undervalued, and the above share buy-backs in the then conditions would effectively alleviate the extra burden of the Existing Share Scheme and the Existing Share Option Scheme on the Company's financial results. Accordingly, the Board is of the view that the above share buy-backs are in the interests of the Company and its shareholders as a whole.

Save for the aforesaid, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the current period.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the memorandum and articles of association of the Company and the Companies Law of the Cayman Islands (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 39 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 2019 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

27 March 2020

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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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 79 to 163, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 ("HKSA") 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
<p><i>Fair value measurement of unlisted equity investment in relation to HMD global Oy ("HMD")</i></p> <p>We identified fair value measurement of unlisted equity investment in relation to HMD as a key audit matter due to its significance to the consolidated statement of financial position and the involvement of estimation uncertainty over the assumptions.</p> <p>As disclosed in notes 4 and 18 to the consolidated financial statements, in determining the fair value of unlisted equity investment in relation to HMD, the Group engaged an independent professional valuer to perform the valuation based on the cash flow projection for the estimated future cash flow discounted to its present value, which required 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 managements expectation for the market development.</p> <p>After making the above assessment, the fair value of unlisted equity investment in relation to HMD is determined as US\$79,986,000 as at 31 December 2019.</p>	<p>Our procedures in relation to evaluating the appropriateness of the management's fair value measurement of unlisted equity investment in relation to HMD included:</p> <ul style="list-style-type: none">• Understanding how the Group's management determines the fair value of unlisted equity investment in relation to HMD, including the valuation model adopted, key assumptions used and the involvement of independent professional valuer appointed by the Group;• Evaluating the historical accuracy of the financial budgets prepared by the HMD's management by comparing the historical budgets with the actual performance;• Evaluating the reasonableness of the budgeted sales and gross margin by considered the financial budgets and business plan approved by the management of HMD and the available industry and market data; and• Engaging our valuation expert to evaluate the appropriateness of the valuation models adopted and the key assumptions used.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Allowance for inventories

We identified allowance for inventories as a key audit matter due to the critical judgment exercised by the Group's management in identifying the slow-moving and obsolete inventories and assessing the amount of allowance for inventories.

As disclosed in note 4 to the consolidated financial statements, the Group's management reviews the inventory aging list to identify slow-moving and obsolete inventories that are no longer suitable for use in operation and then estimates the net realisable value based on the latest invoice prices and market condition to the extent that such condition exists at the end of reporting period.

As at 31 December 2019, the carrying amount of inventories, net of allowance, was US\$795,821,000 and an impairment loss of US\$103,990,000 was recognised for the year ended 31 December 2019 to write down relevant inventories to net realisable value.

Our procedures in relation to evaluating the appropriateness of the allowance for inventories included:

- Understanding of how the Group's management identifies the slow-moving and obsolete inventories and assesses the amount of allowance for inventories;
- Understanding and evaluating the appropriateness of the basis of identification of the slow-moving and obsolete inventories;
- Engaging the component auditors to test the accuracy of the aging analysis of inventories, on a sample basis;
- Engaging the component auditors to evaluate the historical accuracy of allowance for inventories by comparing the actual loss to historical allowance recognised; and
- Engaging the component auditors to assess the reasonableness of the amount of allowance for inventories, on a sample basis.



INDEPENDENT AUDITOR'S REPORT

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 HKSAAs 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.

INDEPENDENT AUDITOR'S REPORT

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

As part of an audit in accordance with HKSAAs, 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.

INDEPENDENT AUDITOR'S REPORT

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

27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 US\$'000	2018 US\$'000 (restated)
Continuing operations			
Revenue	5	14,378,658	14,868,132
Cost of sales		(14,125,379)	(15,013,909)
Gross profit (loss)		253,279	(145,777)
Other income, gains and losses	6	139,465	95,451
Impairment loss recognised for interests in associates	19	–	(84,820)
Fair value loss of convertible notes		–	(44,806)
Selling expenses		(17,161)	(24,166)
General and administrative expenses		(192,316)	(231,295)
Research and development expenses		(157,627)	(214,726)
Interest expenses		(37,546)	(27,610)
Share of profit of associates		7,316	3,085
Share of profit (loss) of joint ventures		5	(503)
Loss before tax	7	(4,585)	(675,167)
Income tax expense	10	(27,932)	(3,905)
Loss for the year from continuing operations		(32,517)	(679,072)
Discontinued operation			
Profit (loss) for the year from discontinued operation	11	20,339	(178,043)
Loss for the year		(12,178)	(857,115)
Other comprehensive income (expenses):			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income		3,651	(32,417)
Remeasurement of defined benefit pension plans		17	304
		3,668	(32,113)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(38,814)	(156,256)
Share of translation reserve of associates		(348)	2,439
Share of translation reserve of joint ventures		(21)	94
		(39,183)	(153,723)
Other comprehensive expense for the year, net of income tax		(35,515)	(185,836)
Total comprehensive expense for the year		(47,693)	(1,042,951)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Note</i>	2019 US\$'000	2018 US\$'000 (restated)
(Loss) profit for the year attributable to owners of the Company			
— from continuing operations		(32,632)	(679,078)
— from discontinued operation		20,339	(178,043)
Loss for the year attributable to owners of the Company		(12,293)	(857,121)
Profit for the year attributable to non-controlling interests			
— from continuing operations		115	6
		(12,178)	(857,115)
Total comprehensive (expense) income attributable to:			
Owners of the Company		(47,868)	(1,042,280)
Non-controlling interests		175	(671)
		(47,693)	(1,042,951)
Loss per share	13		
From continuing and discontinued operations			
Basic		(US0.15 cent)	(US10.57 cents)
From continuing operations			
Basic		(US0.40 cent)	(US8.37 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 US\$'000	2018 US\$'000
Non-current assets			
Property, plant and equipment	14	991,237	1,002,393
Right-of-use assets	15	72,700	–
Investment properties	16	3,965	4,747
Prepaid lease payments	15	–	47,809
Financial assets at fair value through profit or loss	17		
— Equity instruments		3,739	13,082
— Convertible notes		666	–
Financial assets at fair value through other comprehensive income	18		
— Equity instruments		124,128	119,232
Interests in associates	19	27,940	20,972
Interests in joint ventures	20	–	2,390
Deferred tax assets	21	19,567	20,300
Deposit for acquisition of right-of-use assets/prepaid lease payments		27,327	27,785
		1,271,269	1,258,710
Current assets			
Inventories	22	795,821	1,400,388
Trade and other receivables	23	3,299,023	4,305,578
Financial assets at fair value through profit or loss			
— Short-term investments	17	71,939	454,421
Bank deposits	30	19,200	66,697
Bank balances and cash	30	1,545,269	1,418,569
		5,731,252	7,645,653
Current liabilities			
Trade and other payables	24	4,007,915	5,091,425
Contract liabilities		140,249	20,063
Lease liabilities	25	20,150	–
Bank borrowings	26	605,728	1,427,217
Provision	31	13,185	102,719
Tax payable		76,860	81,373
		4,864,087	6,722,797
Net current assets		867,165	922,856
Total assets less current liabilities		2,138,434	2,181,566

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 US\$'000	2018 US\$'000
Capital and reserves			
Share capital	27	328,456	328,563
Reserves	28	1,766,030	1,815,779
Equity attributable to owners of the Company		2,094,486	2,144,342
Non-controlling interests		6,114	5,939
Total equity		2,100,600	2,150,281
Non-current liabilities			
Deferred tax liabilities	21	13,106	10,441
Deferred income	32	18,891	20,844
Lease liabilities	25	5,837	–
		37,834	31,285
		2,138,434	2,181,566

The consolidated financial statements on pages 79 to 163 were approved and authorised for issue by the board of directors on 27 March 2020 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 2019

	Attributable to owners of the Company												
	Share capital	Share premium	Treasury shares	Special reserve	Revaluation reserve	Other reserve	Legal reserve	Translation reserve	Share compensation reserve	Retained profits	Total	Non-controlling interests	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
			(note c)	(note 28)	(note b)	(note a)	(note 28)						
Balance at 1 January 2018	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) income 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 40)	-	-	-	-	-	-	-	-	(3,024)	-	(3,024)	-	(3,024)
Recognition of equity-settled share-based payments (note 40)	-	-	-	-	-	-	-	-	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
(Loss) profit for the year	-	-	-	-	-	-	-	-	-	(12,293)	(12,293)	115	(12,178)
Other comprehensive income (expense) for the year	-	-	-	-	3,651	17	-	(39,243)	-	-	(35,575)	60	(35,515)
Total comprehensive income (expense) for the year	-	-	-	-	3,651	17	-	(39,243)	-	(12,293)	(47,868)	175	(47,693)
Repurchase of ordinary shares (note 27)	-	-	(1,988)	-	-	-	-	-	-	-	(1,988)	-	(1,988)
Cancellation of ordinary shares (note 27)	(107)	(327)	434	-	-	-	-	-	-	-	-	-	-
Profits appropriations	-	-	-	-	-	-	4,082	-	-	(4,082)	-	-	-
Balance at 31 December 2019	328,456	1,203,080	(1,554)	15,514	(44,875)	(981)	172,981	(12,667)	-	434,532	2,094,486	6,114	2,100,600

Notes:

- 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.
- The amount represents the change in fair value of equity investments classified as financial assets at fair value through other comprehensive income.
- The amount represents the ordinary shares repurchased during the year but cancelled after the reporting period end.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 US\$'000	2018 US\$'000
OPERATING ACTIVITIES		
Loss for the year	(12,178)	(857,115)
Adjustments for:		
Income tax	28,485	17,014
Impairment loss recognised for goodwill	–	79,435
Depreciation and amortisation	195,369	179,473
Share-based payment expenses	–	15,632
Write down of inventories	103,990	132,714
Loss on disposal and write-off of property, plant and equipment	6,363	21,341
Gain on disposal of land use right classified as right-of-use assets	(1,207)	–
Gain on disposal of an associate	(450)	–
Interest expenses	38,278	27,705
Share of profit of associates	(7,316)	(3,085)
Share of (profit) loss of joint ventures	(5)	503
Impairment loss (reversed) recognised in respect of trade receivables, net	(187)	949
Impairment loss recognised for property, plant and equipment	3,105	6,107
Impairment loss recognised for interest in a joint venture	2,374	–
Impairment loss recognised for interests in associates	–	84,820
Fair value loss of convertible notes	–	44,806
Deferred income recognised to income	(1,630)	(1,696)
Net fair value gain arising on short-term investments at fair value through profit or loss	(9,099)	(19,309)
Net fair value (gain) loss arising on equity instruments at fair value through profit or loss	(2,567)	70,687
Interest income	(35,282)	(35,035)
Operating cash flows before movements in working capital	308,043	(235,054)
Decrease (increase) in inventories	476,925	(564,790)
Increase in trade and other receivables	(326,835)	(803,070)
(Decrease) increase in trade and other payables	(994,047)	829,008
Increase (decrease) in contract liabilities	120,374	(45,334)
(Decrease) increase in provision	(47,464)	6,377
Cash used in operations	(463,004)	(812,863)
Income taxes paid, net	(26,539)	(33,212)
Interest received	34,508	34,969
Payments made for share-based payment expenses	–	(3,024)
NET CASH USED IN OPERATING ACTIVITIES	(455,035)	(814,130)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 US\$'000	2018 US\$'000
INVESTING ACTIVITIES		
Purchase of short-term investments	(1,039,932)	(3,086,818)
Purchase of property, plant and equipment	(210,145)	(276,993)
Purchase of equity instruments at fair value through other comprehensive income	(1,131)	(68,017)
Purchase of convertible notes	(666)	–
Proceeds on settlements of short-term investments	1,414,156	3,056,155
Proceeds from disposal of financial assets at fair value through profit or loss	1,209,034	–
Withdrawal (placement) of bank deposits for investing purpose	45,635	(36,984)
Proceeds from disposal of equity instruments at fair value through profit or loss	11,910	23,504
Proceeds on disposal of property, plant and equipment	10,272	10,076
Proceeds from disposal of land use right classified as right-of-use assets	4,847	–
Proceeds from disposal of an associate	150	–
Dividend income from an associate	–	80
NET CASH FROM (USED IN) INVESTING ACTIVITIES	1,444,130	(378,997)
FINANCING ACTIVITIES		
Bank borrowings raised	4,786,235	6,300,402
Bank borrowings repaid	(5,604,498)	(5,570,776)
Interest on bank borrowings paid	(39,165)	(26,159)
Repayments of lease liabilities	(10,473)	–
Payments on repurchase of ordinary shares	(1,988)	–
Interest on lease liabilities paid	(1,019)	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(870,908)	703,467
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	118,187	(489,660)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,418,569	1,979,905
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	8,513	(71,676)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	1,545,269	1,418,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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. From 1 January 2019, the Group ceased its distribution business and re-presented the disclosure relate to the distribution business for prior year in the consolidated financial statements, further details are set out in note 11. The principal activities of its principal subsidiaries are set out in note 41.

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

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

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

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 these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

IFRS 16 “Leases” (“IFRS 16”)

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 “Leases” (“IAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery and equipment in the People’s Republic of China (the “PRC”) was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

IFRS 16 “Leases” (“IFRS 16”) (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rate applied is 4.73%.

	At 1 January 2019
	US\$’000
Operating lease commitments disclosed as at 31 December 2018	23,752
Lease liabilities discounted at relevant incremental borrowing rates	23,442
Add: Lease liabilities resulting from lease modifications of existing leases (Note)	11,323
Less: Recognition exemption — short-term leases	(22,836)
Lease liabilities relating to operating leases recognised upon application of IFRS 16	11,929
Analysed as	
Current	1,225
Non-current	10,704
	11,929

Note: The Group renewed the leases of several existing properties by entering into new lease contracts which commence after date of initial application, these new contracts are accounted as lease modifications of the existing contracts upon application of IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

IFRS 16 “Leases” (“IFRS 16”) (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets US\$'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	11,929
Reclassified from prepaid lease payments (Note)	47,809
	59,738
By class:	
Leasehold land	47,809
Land and buildings	8,179
Plant and machinery	3,184
Fixtures and equipment	566
	59,738

Note:

- (a) Upfront payments for leasehold lands in the PRC, Vietnam and India were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the prepaid lease payments amounting to US\$47,809,000 were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 17	Insurance Contracts ¹
Amendments to IFRS 3	Definition of a Business ²
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	Classification of Liabilities as Current or Non-current ⁵
Amendments to IAS 1 and IAS 8	Definition of Material ⁴
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021.

² 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.

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 annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRSs mentioned 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.

Amendments to IAS 1 and IAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

New and amendments to IFRSs in issue but not yet effective *(Continued)*

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), 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" ("IAS 36").

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Profit or loss and each item of other comprehensive income ("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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

The 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 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 is not allocated to any assets, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(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.

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transition in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transition in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease component as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties, machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of IFRS 16 in accordance with transition in note 2)

(Continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 "Financial Instruments" ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of IFRS 16 in accordance with transition in note 2)

(Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of IFRS 16 in accordance with transition in note 2)

(Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

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.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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

The Group as a lessor (upon application of IFRS 16 in accordance with transition in note 2)

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

All borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets 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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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 to the same taxable entity by the same taxation authority.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are tangible assets that are 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".

Freehold land is depreciated and measured at cost less subsequent accumulated impairment losses.

Properties in the course of construction for production or for its own purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16). When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)* **Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

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.

Impairment losses on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any.

The recoverable amounts of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash generating unit or group of cash-generating units.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on property, plant and equipment and right-of-use assets

(Continued)

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) 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 or the group of cash-generating units. 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 or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

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.

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.

The amount recognised as a provision is 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).

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 marketplace.

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

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.

Financial assets

Classification and subsequent measurement of financial assets

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 of IFRS 9/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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets *(Continued)*

(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 fair value through other comprehensive income ("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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables, bank deposits and bank balances) which are subject to impairment under IFRS 9. 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, 12-month ECL ("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.

(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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(i) Significant increase in credit risk *(Continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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

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 following 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.

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.

Derecognition of financial assets

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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 instruments.

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.

Derecognition of financial liabilities

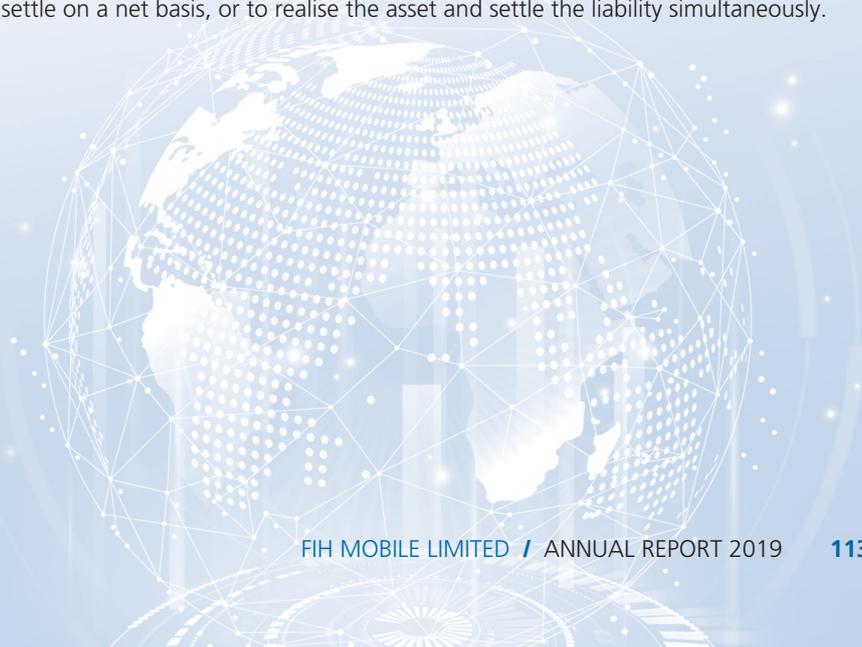
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

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.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 interest in an associate

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Key sources of estimation uncertainty

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

Fair value measurement of unlisted equity securities at FVTOCI

In determining the fair values of unlisted equity securities at FVTOCI as disclosed in note 18, the Group engages independent professional valuers to perform valuation based on valuation models or estimates of 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 fair value.

Income taxes

As at 31 December 2019, a deferred tax asset of US\$7,426,000 (2018: US\$4,190,000) in relation to unused tax losses of US\$24,754,000 (2018: US\$14,004,000) 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\$1,700,084,000 (2018: US\$1,590,041,000) 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 2019, no deferred tax has been provided for the undistributed profits of US\$1,175,857,000 (2018: US\$1,213,508,000) in subsidiaries in the People's Republic of China (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 recognised for other deductible temporary differences of approximately US\$28,972,000 (2018: US\$70,154,000) on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses.

At 31 December 2019, 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\$191,690,000 (2018: US\$259,033,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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, aged analysis of the trade receivables. 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 2019, the carrying amount of trade receivables is US\$2,858,806,000 (net of allowance for credit losses of US\$1,593,000) (2018: carrying amount of US\$3,638,370,000 (net of allowance for doubtful debts of US\$1,795,000)).

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. Also, estimation of net realisable value takes into account the latest invoice prices and market condition to the extent that such condition exists at the end of reporting period. Where the net realisable value is less than the carrying amount, impairment loss will arise. As at 31 December 2019, the carrying amount of inventories is approximately US\$795,821,000 (net of allowance for slowing moving inventories of US\$97,922,000) (2018: US\$1,400,388,000 (net of allowance for slowing moving inventories of US\$88,556,000)).

Useful lives and impairment assessment of property, plant and equipment

The management determines the estimated useful lives and the residual values 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 2019, the carrying amount of property, plant and equipment is US\$991,237,000 (2018: US\$1,002,393,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 and processing service) amounting to US\$14,378,658,000 (2018: US\$14,868,132,000) to its customers in connection with the production of handsets. From 1 January 2019, the Group discontinued its distribution business. The segment information reported below does not include any amounts for this discontinued operation, which are described more in note 11.

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.

As at 1 January 2018, contract liabilities amounted to US\$84,517,000. All the contract liabilities at the beginning of the reporting period were included in the revenue recognised in the reporting period.

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

Continuing operations

	2019	2018
	US\$'000	US\$'000 (restated)
Segment revenue (external sales)		
Asia	12,023,341	11,724,824
Europe	1,106,314	2,005,463
America	1,249,003	1,137,845
Total	14,378,658	14,868,132
Segment profit (loss)		
Asia	230,286	256,735
Europe	10,985	(375,933)
America	58,738	48,207
	300,009	(70,991)
Other income, gains and losses	75,574	(3,501)
Impairment loss recognised for interests in associates	–	(84,820)
Fair value loss of convertible notes	–	(44,806)
General and administrative expenses	(192,316)	(231,295)
Research and development expenses	(157,627)	(214,726)
Interest expense	(37,546)	(27,610)
Share of profit of associates	7,316	3,085
Share of profit (loss) of joint ventures	5	(503)
Loss before tax from continuing operations	(4,585)	(675,167)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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:

	2019 US\$'000	2018 US\$'000 (restated)
ASSETS		
Segment assets		
Continuing operations		
Allocated		
Asia	2,424,530	2,636,958
Europe	176,127	541,232
America	480,165	584,954
Total	3,080,822	3,763,144
Unallocated		
Property, plant and equipment	974,213	982,433
Inventories	786,374	1,391,886
Cash and bank deposits	1,347,301	998,300
Others	518,140	1,163,866
Corporate assets	179,788	183,038
Assets relating to discontinued operation	115,883	421,696
Consolidated total assets	7,002,521	8,904,363
LIABILITIES		
Segment liabilities		
Continuing operations		
Allocated		
Europe	625	682
America	30,387	36,968
Total	31,012	37,650
Unallocated		
Trade and other payables	3,977,571	4,671,180
Others	198,176	53,944
Corporate liabilities	695,108	1,520,183
Liabilities relating to discontinued operation	54	471,125
Consolidated total liabilities	4,901,921	6,754,082

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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 Europe and America operations.

Other information

Continuing operations

	Year ended 31 December 2019				
	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	–	88	651	209,401	210,140
Depreciation and amortisation*	148,655	848	3,460	42,267	195,230
Loss on disposal and write-off of property, plant and equipment	–	–	–	6,323	6,323
Impairment loss recognised for property, plant and equipment	–	–	–	3,105	3,105
Impairment loss reversed on trade receivables	(275)	31	74	–	(170)
Provision for warranty	12,001	–	–	–	12,001
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Net fair value gain arising on short-term investments at FVTPL	–	–	–	(9,099)	(9,099)
Net fair value gain arising on equity instruments at FVTPL	–	–	–	(2,567)	(2,567)
Write down of inventories to net realisable value	–	–	–	103,990	103,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information *(Continued)*

Continuing operations *(Continued)*

	Year ended 31 December 2018				
	Asia US\$'000	Europe US\$'000 (restated)	America US\$'000	Unallocated US\$'000	Consolidated US\$'000 (restated)
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	358	3,054	273,387	276,799
Depreciation and amortisation*	117,794	650	3,593	37,234	159,271
Loss on disposal and write-off of property, plant and equipment	–	–	1	19,796	19,797
Impairment loss recognised for property, plant and equipment	–	–	–	6,107	6,107
Impairment loss recognised on trade receivables	932	–	–	–	932
Provision for warranty	11,860	–	–	–	11,860
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Net fair value gain arising on short-term investments at FVTPL	–	–	–	(19,309)	(19,309)
Net fair value loss arising on equity instruments at FVTPL	–	–	–	70,687	70,687
Write down of inventories to net realisable value	–	–	–	132,714	132,714

* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 (2018: the PRC and Finland) included in Asia (2018: 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"), Socialist Republic of Vietnam ("Vietnam"), India and other countries.

Information about the Group's revenue from continuing operations 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	
	2019 US\$'000	2018 US\$'000 (restated)	2019 US\$'000	2018 US\$'000 (restated)
PRC (country of domicile)	10,242,337	9,859,998	819,569	821,540
India	4,076,404	4,901,393	128,940	116,977
Mexico	48,052	52,879	12,250	11,669
Vietnam	5,409	254	117,562	115,596
USA	–	1	3,472	6,211
Other countries	6,456	53,607	41,376	33,581
	14,378,658	14,868,132	1,123,169	1,105,574

Note: Non-current assets excluded those related to discontinued operation, 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:

	2019 US\$'000	2018 US\$'000
Customer A ¹	4,624,059	3,600,260
Customer B ¹	3,917,429	4,566,468
Customer C ¹	1,737,124	N/A ²
Customer D ¹	1,483,543	N/A ²
Customer E ¹	N/A ³	2,462,863

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

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

³ The customer did not contribute over 10% of the total sales of the Group in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. OTHER INCOME, GAINS AND LOSSES

	2019 US\$'000	2018 US\$'000 (restated)
An analysis of the Group's other income, gains and losses is as follows:		
Continuing operations		
Interest income from bank deposits and bank balances	34,502	28,384
Service income	63,891	98,952
Sales of materials and scraps	7,597	26,357
Repairs and modifications of mouldings	23,795	25,981
Net foreign exchange loss	(56,751)	(101,999)
Government subsidies (<i>note</i>)	59,938	66,622
Rental income	9,688	19,985
Loss on disposal and write-off of property, plant and equipment	(6,323)	(20,756)
Gain on disposal of land use right classified as right-of-use assets	1,207	–
Impairment loss recognised for property, plant and equipment	(3,105)	(6,107)
Impairment loss recognised for interest in a joint venture	(2,374)	–
Net fair value gain (loss) on financial assets at FVTPL		
— short-term investments	9,099	19,309
— equity instruments	2,567	(70,687)
Others	(4,266)	9,410
	139,465	95,451

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. LOSS BEFORE TAX

	2019 US\$'000	2018 US\$'000 (restated)
Loss before tax for the year from continuing operations has been arrived at after charging:		
Amortisation of prepaid lease payments (included in general and administrative expenses)	–	1,794
Depreciation of property, plant and equipment	186,944	156,558
Depreciation of right-of-use assets	7,339	–
Depreciation of investment properties	947	919
Total depreciation and amortisation	195,230	159,271
Less: Amount capitalised in inventories	(152,954)	(138,609)
Amount included in research and development expenses	(7,701)	(5,158)
	34,575	15,504
Staff costs		
Directors' emoluments	1,130	2,125
Retirement benefit scheme contributions (excluding directors)	23,237	58,694
Other staff costs	506,246	446,426
Equity-settled share-based payments	–	15,632
Total staff costs	530,613	522,877
Less: Amount capitalised in inventories	(341,701)	(272,509)
Amount included in research and development expenses	(80,905)	(120,963)
	108,007	129,405
Auditor's remuneration	1,203	1,204
Cost of inventories recognised as expense	14,009,388	14,869,335
Impairment loss (reversed) recognised in respect of trade receivables, net	(170)	932
Provision for warranty	12,001	11,860
Write down of inventories to net realisable value	103,990	132,714

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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:

2019	Other emoluments				Total 2019 US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Performance- based or discretionary bonus US\$'000 (Note)	Retirement benefit scheme contributions US\$'000	
Chih Yu Yang (also acting as the chief executive)	–	96	–	–	96
Wang Chien Ho	–	70	112	–	182
Kuo Wen-Yi	–	420	330	–	750
Lau Siu Ki	31	9	–	–	40
Daniel Joseph Mehan	31	–	–	–	31
Tao Yun Chih	31	–	–	–	31
	93	595	442	–	1,130

2018	Other emoluments				Total 2018 US\$'000
	Fees US\$'000	Basic salaries and allowances US\$'000	Performance- based or discretionary bonus US\$'000 (Note)	Retirement benefit scheme contributions US\$'000	
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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

The chief executive of the Company is also its director and therefore the emoluments of the chief executive have been disclosed above. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive 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 (note 9) were paid as compensation for loss of office and as incentive to join or upon joining the Group during the years ended 31 December 2019 and 2018.

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2018: three) executive director of the Company, whose emoluments are included in note 8 above. The emoluments of the remaining four (2018: two) individuals were as follows:

	2019 US\$'000	2018 US\$'000
Salaries and other benefits	540	156
Performance-related incentive payments	1,034	901
	1,574	1,057

Their emoluments were within the following bands:

	Number of employees	
	2019	2018
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	–	–
HK\$3,000,001 to HK\$3,500,000	1	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
HK\$5,000,001 to HK\$5,500,000	–	–
HK\$5,500,001 to HK\$6,000,000	1	–
	4	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. INCOME TAX EXPENSE

	2019 US\$'000	2018 US\$'000 (restated)
Continuing operations		
Current tax		
— Hong Kong	—	—
— Other jurisdictions	26,169	6,156
	26,169	6,156
Overprovision in prior years		
— Hong Kong	—	—
— Other jurisdictions	(2,126)	(17,634)
	(2,126)	(17,634)
	24,043	(11,478)
Deferred tax (<i>note 21</i>)		
— Current year	3,889	15,770
— Change in tax rate	—	(387)
	3,889	15,383
	27,932	3,905

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

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2018: 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 subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2018: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. INCOME TAX EXPENSE *(Continued)*

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:

	2019 US\$'000	2018 US\$'000 (restated)
Loss before tax (from continuing operations)	(4,585)	(675,167)
Tax credit at the PRC income tax rate of 25% (2018: 25%) for the year <i>(note)</i>	(1,146)	(168,792)
Effect of different tax rates of subsidiaries	939	(582)
Effect of income taxed at concessionary tax rates	(6,727)	(11,329)
Tax effect of expenses not deductible for tax purpose	14,768	79,784
Tax effect of income not taxable for tax purpose	(9,008)	(17,061)
Tax effect of tax losses/deductible temporary differences not recognised	33,062	140,551
Tax effect of share of profit of associates	(1,829)	(771)
Tax effect of share of (profit) loss of joint ventures	(1)	126
Tax effect of change in tax rate	–	(387)
Overprovision in prior years	(2,126)	(17,634)
Income tax expense for the year	27,932	3,905

Note: The domestic income tax rate of 25% (2018: 25%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. DISCONTINUED OPERATION

From 1 January 2019, the Group discontinued its distribution business. The profit (loss) for the year from the discontinued operation is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the distribution business as discontinued operation.

	2019 US\$'000	2018 US\$'000
Revenue	–	61,771
Other income, gains and losses	26,423	(3,934)
Impairment loss recognised for goodwill	–	(79,435)
Selling expenses	–	(99,180)
General and administrative expenses	(4,799)	(44,061)
Interest expenses	(732)	(95)
Profit (loss) before tax	20,892	(164,934)
Income tax expense	(553)	(13,109)
Profit (loss) for the year	20,339	(178,043)
(Profit) loss for the year from discontinued operation has been arrived at after charging:		
Interest income from bank deposits and bank balances	(780)	(6,651)
Staff costs	4,522	17,910
Auditor's remuneration	181	174
Depreciation of property, plant and equipment	139	10,702
Loss on disposal of property, plant and equipment	40	585
Impairment loss (reversed) recognised in respect of trade receivables, net	(17)	17
Amortisation of intangible assets	–	9,500
Provision for warranty	–	58,017
Net cash flow used in operating activities	(5,727)	(186,172)
Net cash flow from investing activities	317	1,009
Net cash flow used in financing activities	(732)	(95)
Net cash flow	(6,142)	(185,258)

As at 31 December 2019, assets and liabilities relating to discontinued operation amounted to US\$115,883,000, which mainly consist of other receivables of US\$81,703,000 and bank balances of US\$34,180,000, and US\$54,000 respectively.

12. DIVIDENDS

No dividend was declared or proposed for the years ended 31 December 2019 and 31 December 2018, nor has any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. LOSS PER SHARE

For continuing operations

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

	2019 US\$'000	2018 US\$'000
Loss attributable to the owners of the Company	(12,293)	(857,121)
Less: Profit (loss) for the year from discontinued operation	20,339	(178,043)
Loss for the purposes of basic loss per share from continuing operations	(32,632)	(679,078)

	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	8,212,499,287	8,109,008,913

From continuing and discontinued operations

The calculation of the basic loss per share from continuing and discontinued operations attributable to the owners of the Company is based on the following data:

	2019 US\$'000	2018 US\$'000
Loss attributable to the owners of the Company		
Loss for the purposes of basic loss per share	(12,293)	(857,121)

The denominators used are the same as those detailed above for basic earnings per share.

From discontinued operation

Basic profit per share for the discontinued operation is US0.25 cent (2018: loss of US2.20 cents per share), based on the profit for the year from the discontinued operation of US\$20,339,000 (2018: loss of US\$178,043,000) and the denominators detailed above for basic profit (loss) per share.

The computation of diluted loss per share for the years ended 31 December 2019 and 31 December 2018 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US\$'000	Plant and machinery US\$'000	Fixtures and equipment US\$'000	Construction in progress US\$'000	Total US\$'000
COST					
At 1 January 2018	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
Exchange adjustments	(10,431)	(17,979)	(776)	(477)	(29,663)
Additions	11,807	169,350	7,087	21,901	210,145
Disposals and write-off	(4,553)	(53,317)	(4,489)	(920)	(63,279)
Transfers to investment properties (note 16)	(300)	–	–	–	(300)
Transfers	8,559	22,064	1,501	(32,124)	–
At 31 December 2019	805,836	1,163,987	123,982	18,595	2,112,400
DEPRECIATION AND IMPAIRMENT					
At 1 January 2018	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
Exchange adjustments	(6,008)	(9,137)	(340)	–	(15,485)
Charge for the year	48,617	126,517	11,949	–	187,083
Eliminated on disposals and write-off	(2,860)	(39,816)	(3,968)	–	(46,644)
Impairment loss recognised in profit or loss	–	3,105	–	–	3,105
At 31 December 2019	395,258	649,449	76,456	–	1,121,163
CARRYING VALUES					
At 31 December 2019	410,578	514,538	47,526	18,595	991,237
At 31 December 2018	445,245	475,089	51,844	30,215	1,002,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Included in the land and buildings are freehold land, located in Hungary, Mexico and India, having an aggregate cost of approximately US\$10,477,000 (2018: US\$10,549,000). All buildings are situated outside Hong Kong.

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 2019, 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 assets that have impairment indications, such as changing market environment and determined that a number of those assets were impaired. Impairment losses of US\$3,105,000 (2018: US\$6,107,000) has been recognised in respect of plant and machinery (2018: plant and machinery and fixtures and equipment) for the year.

15. RIGHT-OF-USE ASSETS/PREPAID LEASE PAYMENTS

	Leasehold land US\$'000	Land and buildings US\$'000	Plant and machinery US\$'000	Fixtures and equipment US\$'000	Total US\$'000
As at 1 January 2019					
Carrying amount	47,809	8,179	3,184	566	59,738
As at 31 December 2019					
Carrying amount	42,456	5,161	24,791	292	72,700
For the year ended 31 December 2019					
Depreciation charge	1,145	3,843	2,051	300	7,339
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16					78,325
Total cash outflow for leases					89,817
Additions to right-of-use assets					25,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. RIGHT-OF-USE ASSETS/PREPAID LEASE PAYMENTS *(Continued)*

During the year ended 31 December 2019, the Group disposed land use rights in the PRC amounting to US\$3,640,000.

For both years, the Group leases leasehold land and buildings, plant and machinery and fixtures and equipment for its operations. Lease contracts are entered into for fixed term of one to three years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease assets may not be used as security for borrowing purpose.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located at office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

During the year, the Group entered into a new lease agreement for the use of leased properties, machinery, office equipment for one to three years. On the lease commencement, the Company recognised US\$25,000,000 of right-of-use assets and US\$25,000,000 of lease liabilities.

The Group regularly entered into short-term leases for certain premises, motor vehicles and office equipment. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense incurred during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. INVESTMENT PROPERTIES

	US\$'000
COST	
At 1 January 2018	44,025
Exchange adjustment	(3,549)
At 31 December 2018	40,476
Exchange adjustment	(1,158)
Transfers from property, plant and equipment (<i>note 14</i>)	300
At 31 December 2019	39,618
DEPRECIATION	
At 1 January 2018	37,876
Exchange adjustment	(3,066)
Provided for the year	919
At 31 December 2018	35,729
Exchange adjustment	(1,023)
Provided for the year	947
At 31 December 2019	35,653
CARRYING VALUES	
At 31 December 2019	3,965
At 31 December 2018	4,747

The fair value of the Group's investment properties at 31 December 2019 was US\$11,595,000 (2018: US\$10,460,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS Financial assets mandatorily measured at FVTPL:

	2019 US\$'000	2018 US\$'000
Listed securities:		
— Equity securities listed in Hong Kong	3,739	3,075
— Equity securities listed in Taiwan	–	10,007
	3,739	13,082
Convertible notes	666	–
Short-term investments (<i>note</i>)	71,939	454,421
Analysed for reporting purposes as:		
Current assets	71,939	454,421
Non-current assets	4,405	13,082
	76,344	467,503

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

18. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 US\$'000	2018 US\$'000
Equity securities listed in Taiwan (<i>note a</i>)	4,619	4,207
Equity securities listed in USA (<i>note a</i>)	877	–
Unlisted equity securities (<i>note b</i>)	118,632	115,025
	124,128	119,232

Notes:

- (a) The above listed equity investments represent ordinary shares of entities listed in Taiwan and USA. 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 2019, included in unlisted equity securities above, there is the Group's investment in HMD global Oy ("HMD"), a company incorporated in Finland, which is engaged in the development, manufacture and sale of telecommunication devices, software and related services of approximately US\$79,986,000 (2018: US\$79,986,000). During the year ended 31 December 2018, the Group further acquired certain interests in HMD at a cash consideration of US\$62,000,000.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INTERESTS IN ASSOCIATES

	2019 US\$'000	2018 US\$'000
Cost of investments in associates, less impairment		
Unlisted	12,392	16,869
Share of post-acquisition profit and other comprehensive income, net of dividend received	15,548	4,103
	27,940	20,972

At 31 December 2019 and 2018, 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
					2019	2018	2019	2018	
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%	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
杭州耕德电子有限公司 (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 International Group Limited ("Mango") (note d)	Limited company	BVI	Hong Kong	Ordinary	N/A	15.10%	N/A	25.00%	Engaging in the provision of mobile devices to hotels and related hospitality technology solutions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INTERESTS IN ASSOCIATES *(Continued)*

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 (2019: nil) was recognised to fully impair the Group's interests in CEExchange, 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 2019, the Group disposed of all the shares at a consideration of US\$450,000 and a gain of US\$450,000 was recognised in profit or loss during the year.
- (c) During the year ended 31 December 2018, an impairment loss of US\$708,000 (2019: 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 establish in the BVI.

During the year ended 31 December 2018, an impairment loss of US\$77,190,000 (2019: nil) was recognised to fully impair 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. During the year ended 31 December 2019, the Group ceased to exercise significant influence over Mango because it ceased to have the right to appoint one out of four directors of Mango after disposing the convertible notes of Mango to a third-party.

Aggregate information of associates that are not individually material

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

	Year ended 31.12.2019 US\$'000	Year ended 31.12.2018 US\$'000
Total revenue	483,276	477,746
Total profit (loss) for the year	19,617	(108,998)
Total other comprehensive income	706	130,317
Group's share of profit and other comprehensive income of associates for the year	6,968	5,524

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

20. INTERESTS IN JOINT VENTURES

	2019 US\$'000	2018 US\$'000
Cost of unlisted investments in joint ventures, less impairment	5,663	8,037
Share of post-acquisition loss and other comprehensive expense	(5,663)	(5,647)
	–	2,390

At 31 December 2019 and 2018, 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
					2019	2018	2019	2018	
Ways Transworld Inc. ("Ways Transworld") (note b)	Limited company	Taiwan	Taiwan	Ordinary	50%	50%	50%	50%	Designing and manufacturing plastic molds for handheld devices
FIH RadioShack (Asia) Retail Holdings Limited ("FIH RadioShack")	Limited company	Hong Kong	PRC	Ordinary	51%	51%	60% (note a)	60% (note a)	Sale of consumer electronics products and ancillary services

Notes:

- (a) 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.
- (b) During the year ended 31 December 2019, an impairment loss of US\$2,374,000 was recognised of fully impair the Group's interest in Ways Transworld as the directors of the Company considered that no future cash flows would be generated from such interests which were of no market value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. DEFERRED TAXATION

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

	Allowances for inventories and trade and other receivables US\$'000	Warranty provision US\$'000	Accelerated tax depreciation US\$'000	Tax losses US\$'000	Deferred income US\$'000	Others US\$'000 (Note)	Total US\$'000
At 1 January 2018	(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)
Charge (credit) to profit or loss for the year	2,432	(127)	(1,067)	(2,932)	-	5,583	3,889
Exchange adjustments	(47)	(1)	(11)	(304)	-	(128)	(491)
At 31 December 2019	(3,357)	(599)	9,336	(7,426)	-	(4,415)	(6,461)

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

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

	2019 US\$'000	2018 US\$'000
Deferred tax assets	(19,567)	(20,300)
Deferred tax liabilities	13,106	10,441
	(6,461)	(9,859)

Deferred tax assets were recognised for other deductible temporary differences of approximately US\$28,972,000 (2018: US\$70,154,000) on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses.

At 31 December 2019, 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\$191,690,000 (2018: US\$259,033,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. DEFERRED TAXATION *(Continued)*

At the end of the reporting period, the Group has unused tax losses of approximately US\$1,724,838,000 (2018: US\$1,604,045,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US\$24,754,000 (2018: US\$14,004,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US\$1,700,084,000 (2018: US\$1,590,041,000) 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\$1,175,857,000 (2018: US\$1,213,508,000) 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.

22. INVENTORIES

	2019 US\$'000	2018 US\$'000
Raw materials	489,341	950,503
Work-in-progress	156,899	271,032
Finished goods	149,581	178,853
	795,821	1,400,388

23. TRADE AND OTHER RECEIVABLES

	2019 US\$'000	2018 US\$'000
Trade receivables	2,860,399	3,640,165
Less: Allowance for credit losses	(1,593)	(1,795)
	2,858,806	3,638,370
Other taxes recoverables	288,715	549,483
Other receivables, deposits and prepayments	151,502	117,725
Total trade and other receivables	3,299,023	4,305,578

As at 1 January 2018, trade receivables from contracts with customers amounted to US\$3,461,169,000.

The Group generally would issue the invoices to the customers when the goods are passed to the customers, except for certain orders that the Group may also collect advance payments from customers. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

	2019 US\$'000	2018 US\$'000
0–90 days	2,844,143	3,598,003
91–180 days	4,605	30,350
181–360 days	2,905	2,331
Over 360 days	7,153	7,686
	2,858,806	3,638,370

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. The Group does not hold any collateral or other credit enhancements over these balances.

Details of impairment assessment of trade and other receivables are set out in note 35.

24. TRADE AND OTHER PAYABLES

	2019 US\$'000	2018 US\$'000
Trade payables	3,200,810	3,920,741
Accruals and other payables	807,105	1,170,684
	4,007,915	5,091,425

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

	2019 US\$'000	2018 US\$'000
0–90 days	3,018,163	3,678,586
91–180 days	158,189	182,819
181–360 days	10,553	39,059
Over 360 days	13,905	20,277
	3,200,810	3,920,741

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For the year ended 31 December 2019

25. LEASE LIABILITIES

	2019 US\$'000
Within one year	20,150
Within a period of more than one year but not more than two years	4,388
Within a period of more than two years but not more than five years	1,449
	25,987
Less: Amount due for settlement within 12 months shown under current liabilities	(20,150)
Amount due for settlement over 12 months shown under non-current liabilities	5,837

26. BANK BORROWINGS

	2019 US\$'000	2018 US\$'000
Bank loans	605,728	1,427,217
Analysis of bank borrowings by currency:		
US\$	605,000	1,427,217
Indian Rupee ("INR")	728	-

The bank borrowings as at 31 December 2019 are unsecured, obtained with original maturity of one to six months (2018: two to twelve months) and carry interest at fixed interest rate ranging from 2.14% to 7.85% (2018: 2.76% to 4.40%) per annum. Out of total bank borrowing, bank borrowing of US\$255,000,000 (2018: US\$198,000,000) contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 2.30% per annum (2018: 1.73% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. SHARE CAPITAL

	Number of shares	Amount US\$'000
Ordinary shares of US\$0.04 each, authorised:		
Balance at 1 January 2018, 31 December 2018 and 31 December 2019	20,000,000,000	800,000
Ordinary shares of US\$0.04 each, issued and fully paid:		
Balance at 1 January 2018	8,093,480,291	323,739
Issue pursuant to the share scheme (<i>note 40(b)</i>)	120,594,615	4,824
Balance at 31 December 2018	8,214,074,906	328,563
Repurchase and cancellation of shares	(2,667,000)	(107)
Balance at 31 December 2019	8,211,407,906	328,456

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

During the year ended 31 December 2019, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	No. of ordinary shares of US\$0.04 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
November	2,167,000	1.28	1.22	2,735
December	8,907,906	1.53	1.33	12,829
	11,074,906			15,564
				US\$'000
Equivalent to				1,988

2,667,000 ordinary shares were cancelled upon repurchase. Remaining 8,407,906 ordinary shares were cancelled subsequently on 7 January 2020.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. RESERVES

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

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

29. DERIVATIVES

Currency derivatives

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

During the current year, a loss from the forward foreign exchange contracts of US\$1,759,000 (2018: gain of US\$2,579,000) 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:

	2019 US\$'000	2018 US\$'000
US\$	122,000	397,960

As at 31 December 2019, the fair value of the Group's currency derivatives is estimated to be approximately US\$2,722,000 assets (2018: US\$4,481,000 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 (2018: other receivables) at the end of the reporting period. The contracts outstanding as at 31 December 2019 mainly related to buying of RMB and Mexican Peso ("MXN") (2018: US\$ and MXN) with maturities in the first quarter of 2020 (2018: first quarter of 2019).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry interest at prevailing market rate of 4.36% (2018: 6.03%) 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 3.61% (2018: 2.49%) per annum on average.

For the year ended 31 December 2019 and 31 December 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of bank balances are set out in note 35.

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

	2019 US\$'000	2018 US\$'000
US\$	495,342	703,389
RMB	868,410	487,522
INR	152,065	84,139
Brazilian Real	8,580	58,186
New Taiwan Dollar	10,260	37,687
Others	29,812	114,343
	1,564,469	1,485,266

31. PROVISION

	2019 US\$'000	2018 US\$'000
At 1 January	102,719	96,896
Exchange adjustments	(111)	(554)
Provision for the year	12,001	69,877
Utilisation of provision/expiry	(59,465)	(63,500)
Settlement through non-cash transaction (note 37)	(41,959)	–
At 31 December	13,185	102,719

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. DEFERRED INCOME

	2019 US\$'000	2018 US\$'000
Government subsidies	18,891	20,844

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

33. CAPITAL COMMITMENTS

	2019 US\$'000	2018 US\$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	11,110	7,923

34. OPERATING LEASE ARRANGEMENTS The Group as lessee

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

The Group had outstanding commitments under non-cancellable operating leases in respect of premises, which fall due as follows:

	2018 US\$'000
Within one year	18,932
In the second to fifth year inclusive	4,820
	23,752

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

The Group as lessor

As at 31 December 2019 and 31 December 2018, certain investment properties are leased to the related parties of the Group but the Group had not contracted with the related parties for any future minimum lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 US\$'000	2018 US\$'000
Financial assets		
Fair value through profit or loss		
Derivatives (included in other receivables)	2,722	4,481
Short-term investments	71,939	454,421
Equity instruments	3,739	13,082
Convertible notes	666	–
	79,066	471,984
Financial assets at amortised cost	4,552,792	5,206,167
Equity instruments at FVTOCI	124,128	119,232
Financial liabilities		
At amortised cost		
Trade and other payables	3,794,745	4,687,331
Bank borrowings	605,728	1,427,217
	4,400,473	6,114,548

(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, convertible notes, short-term investments, trade and other receivables, trade and other payables, lease liabilities 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.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 26 for details of these bank borrowings) and lease liabilities (see note 25 for details). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL and FVTOCI. For equity securities measured at FVTPL 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. 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 2019, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US\$122,000,000 (2018: US\$397,960,000), and their fair values are estimated to be approximately US\$2,722,000 (2018: US\$4,481,000) assets, and are included as other receivables, at the end of the reporting period. The contracts mainly related to buying of RMB and MXN (2018: US\$ and MXN) with maturities in first quarter of the following year.

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

	2019 US\$'000	2018 US\$'000
Assets		
US\$	1,686,860	2,053,715
Liabilities		
US\$	(1,571,818)	(2,825,599)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

Currency risk *(Continued)*

As at 31 December 2018, the Group's bank borrowings of approximately US\$528,917,000 (2019: nil) were denominated in US\$ other than the functional currency of respective group entities and were 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% (2018: 3%) and all other variables were held constant, the Group's pre-tax loss would decrease/increase by approximately US\$3,300,000 (2018: increase/decrease by US\$23,673,000) for the year and the Group's translation reserve would decrease/increase by US\$91,153,000 (2018: US\$87,740,000) 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 (2018: RMB and INR), for which RMB/US\$ exchange rate ranged between 0.1411 and 0.1495 and INR/US\$ exchange rate ranged between 0.0139 and 0.0145 (2018: RMB/US\$ ranged between 0.1436 and 0.1590 and INR/US\$ ranged between 0.0138 and 0.0157) 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 reporting period and 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. 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.

	Notes	External credit rating	Internal credit rating	12-m or lifetime ECL	Gross carrying amount	
					2019 US\$'000	2018 US\$'000
Financial assets at amortised cost						
Bank deposits	30	Ba3–Aa3	N/A	12-m ECL	19,200	66,697
Bank balances	30	Ba3–A1	N/A	12-m ECL	1,545,269	1,418,569
Other receivables	23	N/A	(note a)	12-m ECL	129,517	82,531
Trade receivables	23	N/A	(note b)	Lifetime ECL (not credit-impaired)	2,860,399	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 condition 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 debtors.

As part of the Group's credit risk management, for debtors that are assessed collectively, 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 6.88% (2018: 0.01% to 6.12%) were applied by the Group to the trade receivable with carrying amount of US\$14,663,000 (2018: 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.

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For the year ended 31 December 2019

35. 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 (not credit- impaired) 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
Impairment losses recognised	1,138
Impairment losses reversed	(1,325)
Exchange adjustments	(15)
As at 31 December 2019	1,593

Liquidity risk

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

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are one to six months (2018: two to twelve months) and the maturity periods of other financial liabilities are within three months. Out of the total bank borrowings, bank borrowing of US\$255,000,000 (2018: US\$198,000,000) contains a repayment on demand clause.

As at 31 December 2019, the Group has available unutilised banking facilities of approximately US\$492,300,000 (2018: US\$1,645,081,000). There was no pledge of assets in relation to the banking facilities as at 31 December 2019 and 2018.

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35. FINANCIAL INSTRUMENTS (Continued)

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

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
	31.12.2019 US\$'000	31.12.2018 US\$000				
Equity instrument at FVTPL	Listed equity investments – 3,739	Listed equity investments – 13,082	Level 1	Quoted bid prices in an active market	N/A	N/A
Forward foreign exchange contracts classified as other receivables	Assets – 2,722	Assets – 4,481	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
Convertible notes	Convertible notes – 666	–	Level 2	Fair value derived from market value of the shares of the issuing company in recent investment transactions	N/A	N/A
Investment in interest bearing instruments classified as short-term investments classified as financial assets at FVTPL	Investment in interest bearing instruments – 71,939	Investment in interest bearing instruments – 454,421	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 was 3.20% (2018: 3.95% to 4.10%) per annum	The higher the expected guaranteed interest rate, the higher the fair value, and vice versa
Equity instruments at FVTOCI	Listed equity investments – 5,496	Listed equity investments – 4,207	Level 1	Quoted bid prices in an active market	N/A	N/A
Equity instruments at FVTOCI	Unlisted equity instruments – 1,720	Unlisted equity instruments – 21,541	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 – 116,912	Unlisted equity instruments – 93,484	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 17.60% to 40.00% and 24.70% (2018: 20.11% to 40.00% and 24.60% to 45.00%) respectively	The lower the WACC or discount for lack of control, the higher the fair value, and vice versa

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35. 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 2018 (restated)	–	58,204	426,554
Net fair value (losses) gains			
— 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 <i>(note)</i>	44,806	2,684	–
Exchange adjustments	–	(86)	(22,105)
At 31 December 2018	–	93,484	454,421
Net fair value gains			
— in profit or loss	–	–	9,099
— in other comprehensive income	–	2,471	–
Purchases	–	–	1,039,932
Settlements	–	–	(1,414,156)
Transfer into level 3 <i>(note)</i>	–	20,941	–
Exchange adjustments	–	16	(17,357)
At 31 December 2019	–	116,912	71,939

Note: For the relevant financial assets, the recent transaction prices used in prior year was no longer available, therefore, the valuation techniques for relevant financial assets were changed and their fair value measurement was transferred from level 2 to level 3.

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

Of the total gains or losses for the period included in profit or loss, US\$293,000 (2018: US\$1,567,000) relates to net unrealised gains of short-term investments classified as financial assets at FVTPL at the end of reporting period, which are included in "other income, gains and losses".

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35. 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 2019		
	Gross amounts of recognised financial assets (liabilities) US\$'000	Gross amounts of recognised financial liabilities 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	1,051,156	(1,051,156)	–
Bank borrowings	(1,051,156)	1,051,156	–
Interest receivables	21,506	(19,353)	2,153
Interest payables	(19,353)	19,353	–

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 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	–

During the year, interest income of US\$41,449,000 (2018: US\$32,521,000) was included in interest income under the above arrangement.

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36. 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.

	Interest payables	Bank borrowings	Lease liabilities	Total
	US\$'000	US\$'000 (Note 26)	US\$'000 (Note 25)	US\$'000
At 1 January 2018	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
Adjustment upon application of IFRS 16	–	–	11,929	11,929
A 1 January 2019 (restated)	3,446	1,427,217	11,929	1,442,592
Financing cash flows	(39,165)	(818,263)	(11,492)	(868,920)
New lease entered	–	–	25,000	25,000
Interest expenses	37,259	–	1,019	38,278
Exchange adjustment	–	(3,226)	(469)	(3,695)
At 31 December 2019	1,540	605,728	25,987	633,255

37. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2019, the Group entered into an arrangement with its customer under the discontinuing operation to offset warranty provision and trade receivable of US\$41,959,000.

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 (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. RELATED PARTY TRANSACTIONS

- (a) Other than as disclosed elsewhere in these consolidated financial statements, 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:

	2019 US\$'000	2018 US\$'000
Hon Hai		
Sales of goods	–	3,707
Purchase of goods	6,245	4,674
Sales of property, plant and equipment	119	–
Lease expense — real properties (<i>note</i>)	641	710
Subcontracting income	1,267	1,976
Consolidated services and subcontracting expense	3,424	5,574
General service income	194	–
General service expense	1	38
Subsidiaries of Hon Hai		
Sales of goods	74,185	145,615
Purchase of goods	252,791	341,126
Purchase of property, plant and equipment	31,859	62,177
Sales of property, plant and equipment	5,653	1,886
Lease income — real properties	4,626	3,645
Lease income — non-real properties	27	235
Lease expense — real properties (<i>note</i>)	7,292	5,324
Lease expense — non-real properties (<i>note</i>)	10,326	12,778
Subcontracting income	26,769	14,882
Consolidated services and subcontracting expense	250,074	229,176
General service income	208	280
General service expense	16,004	19,375
Associates of Hon Hai		
Sales of goods	923,041	1,058,031
Purchase of goods	767,971	685,016
Purchase of property, plant and equipment	11,197	2,550
Sales of property, plant and equipment	–	17
Lease income — real properties	149	137
Lease income — non-real properties	395	–
Lease expense — real properties (<i>note</i>)	163	13
Lease expense — non-real properties (<i>note</i>)	407	13
Subcontracting income	13,257	9,322
Consolidated services and subcontracting expense	5,365	6,127
General service income	–	126
General service expense	175	111

Notes: The amounts represent short-term lease expenses during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. 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:

	2019 US\$'000	2018 US\$'000
Trade receivables:		
Hon Hai	1,138	1,412
Subsidiaries of Hon Hai	49,017	56,747
Associates of Hon Hai	83,153	70,783
	133,308	128,942
Other receivables:		
Subsidiaries of Hon Hai	1,304	204
Associates of Hon Hai	441	30
	1,745	234
	135,053	129,176
Trade payables:		
Hon Hai	2,605	2,056
Subsidiaries of Hon Hai	261,579	292,639
Associates of Hon Hai	140,843	143,770
	405,027	438,465
Other payables:		
Hon Hai	71	1,360
Subsidiaries of Hon Hai	14,393	13,765
Associates of Hon Hai	1,448	441
	15,912	15,566
	420,939	454,031

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

(c) Compensation of key management personnel

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

	2019 US\$'000	2018 US\$'000
Short-term benefits	3,957	3,336
Share-based payments	–	2,773
	3,957	6,109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. RELATED PARTY TRANSACTIONS *(Continued)*

- (d) During the year, the Group enter into the following transactions with associates (2018: associates and a joint venture):

	2019 US\$'000	2018 US\$'000
Sales of goods	29,441	2,509
Purchase of goods	2,843	144,356
Other income	8,907	25,565
Other expense	1,014	522

The amounts due from associates were US\$837,000 (2018: US\$8,039,000), which were included in other receivables as at 31 December 2019.

39. 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 2019 by independent valuers, Greatfine Wealth Management Consulting Inc. and Aon Hewitt Korea, respectively. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The principal actuarial assumptions used were as follows:

	2019	2018
Discount rate	0.80%–2.23%	1.60%–2.36%
Expected rate of salary increases	3.00%–4.00%	2.00%–4.00%

The actuarial valuations showed that the market value of plan assets was US\$5,504,000 (2018: US\$6,758,000) and that the actuarial value of these assets represented 149% (2018: 121%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

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 2019 and 2018.

No expense in relation to the share options granted by the Company was recognised by the Group for the years ended 31 December 2019 and 2018.

(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 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.

No expense (2018: US\$15,632,000) was recognised during the year ended 31 December 2019 in relation to the ordinary shares awarded by the Company under the Share Scheme.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2019 and 2018:

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		
				2019	2018	2019	2018	
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	Wholly foreign owned enterprise	PRC	RMB400,000,000	–	–	100%	100%	Research and development; sales
Rising Stars Mobile India Private Limited	Limited company	India	INR23,809,449,800	–	–	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2019	2018	2019	2018	
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*)	Wholly foreign owned enterprise	PRC	RMB50,000,000	–	–	100%	100%	Manufacturing, import and export
KSB International Limited	Limited company	Korea	KRW50,000,000	–	–	100%	100%	Provision of logistics services to group companies; sales
益富可視精密工業（深圳）有限公司 (InFocus Precision Industry (Shenzhen) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	RMB200,797,664	–	–	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\$19,000,000	–	–	100%	100%	Trading 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42. EVENT AFTER THE REPORTING PERIOD

In early January 2020, an outbreak of a respiratory illness caused by the COVID-19 coronavirus was identified in Wuhan, Hubei Province, the PRC. In order to block the possible spread of COVID-19, the General Office of the State Council of the PRC announced the extension of Chinese New Year Holiday to 2 February 2020, which was originally to end on 30 January 2020 yet, most local governments took conservative measures to further extend the reopen of the factories to 10 February. The Group has decided to extend the Chinese New Year Holiday and temporary closed its factories in the PRC and follows the local governments guidelines for the reopening. The Group's operations that had been temporarily closed, are now being gradually reopened in accordance with certain limitations imposed by local governments. The duration and intensity of this global health emergency and related disruptions is uncertain, including potential broader impacts outside of the PRC. Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial position might be material, but cannot be reasonably estimated at the time of this report.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 US\$'000	2018 US\$'000
ASSETS		
Investments in subsidiaries	1,614,631	1,482,697
Other receivables	2,317	4,527
Prepayments	93	93
Amounts due from subsidiaries	1,079,940	1,753,453
Bank balances and cash	3,013	2,535
	2,699,994	3,243,305
LIABILITIES		
Bank borrowings	605,000	868,300
Other payables	1,057	1,215
Amounts due to subsidiaries	–	225,694
	606,057	1,095,209
NET ASSETS	2,093,937	2,148,096
CAPITAL AND RESERVES		
Share capital	328,456	328,563
Share premium	1,203,080	1,203,407
Treasury shares	(1,554)	–
Reserves	563,955	616,126
TOTAL EQUITY	2,093,937	2,148,096

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\$1,767,035,000 (2018: US\$1,819,533,000), consisted of share premium of approximately US\$1,203,080,000 (2018: US\$1,203,407,000) and retained profits of approximately US\$563,955,000 (2018: US\$616,126,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

	Share premium US\$'000	Treasury shares US\$'000 <i>(Note)</i>	Share compensation reserve US\$'000	Retained profits US\$'000	Total US\$'000
Balance at 1 January 2018	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
Loss for the year	–	–	–	(52,171)	(52,171)
Repurchase of ordinary shares	–	(1,988)	–	–	(1,988)
Cancellation of ordinary shares	(327)	434	–	–	107
Balance at 31 December 2019	1,203,080	(1,554)	–	563,955	1,765,481

Note: The amount represents the ordinary shares repurchased during the year but cancelled after the reporting period end.

FINANCIAL SUMMARY

	For the year ended 31 December				2019 (US\$'million)
	2015 (US\$'million)	2016 (US\$'million)	2017 (US\$'million)	2018 (US\$'million) (Note)	
Results					
Revenue	7,450.99	6,233.08	12,080.11	14,868.13	14,378.66
Profit (loss) from operations	295.94	217.85	(484.33)	(647.55)	32.96
Interest expenses	(5.78)	(0.94)	(11.23)	(27.61)	(37.55)
Profit (loss) before tax	290.16	216.91	(495.56)	(675.16)	(4.59)
Income tax expense	(61.50)	(80.70)	(29.83)	(3.91)	(27.93)
Profit (loss) after tax and before non-controlling interests	228.66	136.21	(525.39)	(679.07)	(32.52)
Non-controlling interests	0.41	2.11	(0.10)	(0.01)	(0.11)
Net profit (loss) for the year	229.07	138.32	(525.49)	(679.08)	(32.63)

	2015 (US\$'million)	2016 (US\$'million)	2017 (US\$'million)	2018 (US\$'million)	2019 (US\$'million)
Assets and liabilities		(restated)			
Total assets	5,805.01	6,962.65	8,787.68	8,904.36	7,002.52
Total liabilities	(2,049.60)	(3,391.90)	(5,607.96)	(6,754.08)	(4,901.92)
Non-controlling interests	(8.47)	(6.12)	(6.61)	(5.94)	(6.11)
Capital and reserves	3,746.94	3,564.63	3,173.11	2,144.34	2,094.49

Note: The financial information for the year 2018 was from continuing operations.

CORPORATE GOVERNANCE REPORT

This corporate governance report is issued as of 27 March 2020. The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2019 to 31 December 2019 (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, and that the status quo should be maintained when the Group has been facing challenging conditions, particularly when the Group has made consolidated net loss on an annual basis since 2017. 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 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.

In light of the above and other measures taken (including arrangements relating to delegation by the Board of certain authority as detailed in the “Other Information — Corporate Governance” section of the Company’s 2018 interim report as issued and published on 19 September 2018), the Board believes that there have been adequate checks and balances at both the Board level and the Company’s senior management level, and there has been sufficiently close supervision over the key operational matters of the Group, notwithstanding that the Company has not been able to comply with the code provision contained in Paragraph A.2.1 of the CG Code during the year under review. The Board therefore considers that the circumstances justify the adoption of the arrangement for the chief executive officer to serve also as the acting chairman, and considers that this arrangement is currently in the best interests 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 endeavour to find a suitable candidate to assume the duties as the chairman of the Company at the right and appropriate time, 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.

CORPORATE GOVERNANCE REPORT

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

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 (*member of the corporate governance committee*)

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 2019 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.

CORPORATE GOVERNANCE REPORT

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 2019 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 6 December 2019, 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"), setting out the terms and conditions governing his appointment and ancillary matters, as amended and supplemented from time to time.

CORPORATE GOVERNANCE REPORT

With reference to the requirement under the Articles regarding directors' retirement from office by rotation at each annual general meeting of the Company as mentioned above, it follows that pursuant to the resolution passed by the Company's shareholders at an annual general meeting of the Company in relation to the re-election of any one director of the Company, the current term of such director's appointment with the Company will commence from the closing of such annual general meeting, ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) such director's next re-election is considered in accordance with the Articles.

Pursuant to the re-election duly approved by the Company's shareholders on 25 May 2017, the current appointment term of Mr. Tao as an independent non-executive director of the Company has commenced from 25 May 2017, ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles. Pursuant to the re-elections duly approved by the Company's shareholders on 18 May 2018, the current appointment term of each of Mr. Lau and Dr. Mehan as an independent non-executive director of the Company has commenced from 18 May 2018, ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles.

During the year under review, the non-executive directors (for the time being, being all 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 term of each of Mr. Lau and Dr. Mehan with the Company as an independent non-executive director will be ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles, which meeting is currently expected to be held in or about May 2021. 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.

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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 2019 annual report incorporating this report, as at the date of this report, Mr. Lau holds the position of independent non-executive director in six 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), one meeting of the nomination committee (out of one in the year under review) and one meeting of the remuneration committee (out of one in the year under review), one meeting of the independent Board committee (out of one in the year under review) and two meetings of the Company’s shareholders (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.

Further, as disclosed in the Company’s announcement dated 1 November 2019, Mr. Lau has been named as one of six individuals against whom the Hong Kong Securities and Futures Commission (the “SFC”) has commenced Market Misconduct Tribunal proceedings (the “Proceedings”) where the SFC has alleged that China Medical & Healthcare Group Limited (formerly known as COL Capital Limited (“COL”)) failed to disclose inside information as soon as reasonably practicable, and the six individuals who were directors of COL at the relevant time (including Mr. Lau) had engaged in “reckless or negligent conduct causing” COL’s alleged breach. Mr. Lau has informed the Company that he disagrees with the SFC’s allegations against him in the Proceedings, and that he intends to contest the Proceedings vigorously. For more details, please see the Company’s announcement. In the meantime, having regard to (among other things): (i) the fact that the Proceedings have not concluded and the Market Misconduct Tribunal has not made any findings against Mr. Lau; and (ii) Mr. Lau’s commitment to the Company, his solid track record as an independent non-executive director of the Company over the last 15 years and his professionalism and significant contributions to the Company during that period, the Company’s directors (other than Mr. Lau) consider that Mr. Lau continues to be fit and proper to remain an independent non-executive director of the Company, and to continue to chair the Company’s audit committee, remuneration committee, nomination committee and independent Board committee. The Company will continue to maintain regular communications with Mr. Lau and to periodically review Mr. Lau’s fitness and propriety and suitability to remain in his current roles.

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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 46 to 75. For further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2019 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 different means as appropriate, including but not limited to attending briefings and/or training sessions and/or reading materials relating to a variety of subject matters such as the Group's business operations, general economy and business, manufacturing or technology industry, directors' duties and responsibilities, and applicable legal and regulatory requirements.

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	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

CORPORATE GOVERNANCE REPORT

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 of the audit committee*)

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 particular, the committee meetings 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, 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.

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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 of the remuneration committee*)

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, one remuneration committee meeting was 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 meeting, 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 meeting and written resolutions served (among other things) to review the annual expenses allowances to executive directors, to review the terms of appointment of certain directors, to review the annual remuneration packages of directors and senior management, 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 2019 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"), both policies forming part of the Manual, 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 of the nomination committee*)

Daniel Joseph MEHAN

TAO Yun Chih

CORPORATE GOVERNANCE REPORT

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.

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The nomination committee shall meet at least once a year (as necessary). During the year under review, one nomination committee meeting was 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 meeting, the nomination committee also dealt with matters once by way of circulation and signing of written resolutions during the year under review. In particular, the committee meeting and written resolutions served (among other things) to consider the re-election of two directors, to assess the independence of the independent non-executive directors, to review the structure, size and composition of the Board, to assess the sufficiency of the directors’ time commitment and contributions to the Company 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, each of Mr. Chih and Dr. KUO Wen-Yi (“Dr. Kuo”) was re-elected by the Company’s shareholders on 17 May 2019 as an executive director of the Company, whose appointment term has commenced from 17 May 2019, ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles. In this respect, the work performed by the nomination committee is summarised as follows:

- When considering the proposed re-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, the time commitment and attention and contributions to the Company and his diversity of perspectives appropriate to the requirements of the Company’s business 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.
- When considering the proposed re-appointment of Dr. Kuo as an executive director of the Company, the nomination committee focused on the professional background, qualifications, skills, knowledge, ability and experience of Dr. Kuo in both the Company and the industry as accumulated by Dr. Kuo as the Company’s executive director, and the time commitment and attention and contributions to the Company and his diversity of perspectives appropriate to the requirements of the Company’s business. Following the aforementioned meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Dr. Kuo for re-appointment as an executive director of the Company.

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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 of the corporate governance committee*)
KUO Wen-Yi

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 meeting, 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 meeting and written resolutions served (among other things) to review the then existing shareholders communication policy, to review the then existing list of matters reserved for the Board, to review the total time spent in training and continuous professional development of directors and senior management of the Company and to review the Company's compliance with the CG Code 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.

INDEPENDENT BOARD COMMITTEE

During the year under review, pursuant to the resolutions passed at the Board meeting held on 9 October 2019, an independent Board committee comprising the independent non-executive directors of the Company was established to consider (among other things) the non-exempt continuing connected transactions and the respective proposed annual caps in respect of the non-exempt continuing connected transactions for the three years ending 31 December 2022 as more particularly described in "Report of the Directors" above (forming part of the Company's 2019 annual report incorporating this report). In addition to the committee meeting, the independent Board committee also dealt with subsequent matters once by way of circulation and signing of written resolutions during the year under review. The meeting attendance of each member of the independent Board committee is set out in the section headed "Board, Committees and General Meetings" below.

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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, corporate governance committee, independent Board committee and general meetings 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	Independent	Annual General Meeting (Note 1)	Extra-ordinary General Meeting (Note 2)
					Governance Committee Meeting	Board Committee Meeting		
Executive Directors								
CHIH Yu Yang	6/9	N/A	N/A	N/A	1/1	N/A	1/1	1/1
WANG Chien Ho	8/9	N/A	N/A	N/A	N/A	N/A	1/1	1/1
KUO Wen-Yi	8/9	N/A	N/A	N/A	1/1	N/A	1/1	1/1
CHIH Yu Yang as proxy for KUO Wen-Yi	1/9	-	-	-	-	-	-	-
WANG Chien Ho as proxy for CHIH Yu Yang	2/9	-	-	-	-	-	-	-
KUO Wen-Yi as proxy for CHIH Yu Yang	1/9	-	-	-	-	-	-	-
Independent Non-executive Directors								
LAU Siu Ki	9/9	4/4	1/1	1/1	N/A	1/1	1/1	1/1
Daniel Joseph MEHAN	9/9	4/4	1/1	1/1	N/A	1/1	1/1	1/1
TAO Yun Chih	8/9	4/4	1/1	1/1	N/A	1/1	1/1	1/1

Notes:

- The directors participated in the annual general meeting held on 17 May 2019 ("2019 AGM") by means of telephone conference facility, except that Mr. WANG Chien Ho, Mr. LAU Siu Ki and Mr. TAO Yun Chih attended the 2019 AGM in person.
- The directors participated in the extraordinary general meeting held on 6 December 2019 ("2019 EGM") by means of telephone conference facility, except that Mr. LAU Siu Ki and Mr. TAO Yun Chih attended the 2019 EGM 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\$1,203,000 and US\$1,576,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services and US\$57,000 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.

CORPORATE GOVERNANCE REPORT

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 and adopted 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 in the context of the Group's ERM and internal controls (comprising the Company's chairman/acting chairman, chief executive officer and chief financial officer, and the Group's business heads of the Group's major factories in the PRC, India, Vietnam and 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).

CORPORATE GOVERNANCE REPORT

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 the context of the Group. 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 semi-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 policies and the related procedures which apply to all members of staff and suppliers. Complaints concerning fraudulent acts, unethical acts or improper business conduct can be raised 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.

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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/leaders of human resources, supply chain services, manufacturing and corporate engineering, product safety, security and liability, quality and reliability, finance, legal, information technology, investment management, strategic planning, sales and collection management, environment and health and safety departments/divisions, 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) in accordance with the enterprise risk assessment and management planning operation procedures, which set out (among other things) the enterprise risk assessment and management principles and procedures, the quantifiable assessment standards and evaluations, the respective roles and responsibilities of the ERM Team and the supporting divisions and handling officers at the headquarters and business unit levels as well as the ERM system operation details. 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, security and liability, legal, information technology and security, supply chain management, natural disasters, human resources management, customer credit risk and relationship, industrial safety as well as sales and collection management.



CORPORATE GOVERNANCE REPORT

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 for reviewing and monitoring 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 Measures" section of the Company's announcement on continuing connected transactions dated 9 October 2019. 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 recommended 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.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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During the year under review, the 2019 AGM was held on 17 May 2019 and the 2019 EGM was held on 6 December 2019. The meeting attendance of each director is set out in the section headed “Board, Committees and General Meetings” above.

At the 2019 AGM, the Company obtained its shareholders’ approval of the agenda items set forth in the 2019 AGM notice attached to the Company’s circular dated 10 April 2019.

At the 2019 EGM, the Company obtained its independent shareholders’ approval of the agenda items set forth in the 2019 EGM notice attached to the Company’s circular dated 14 November 2019.

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) 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 (forming part of the Manual) 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.

CORPORATE GOVERNANCE REPORT

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), 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) 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.