FIH Mobile Limited
富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2016 together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2016

	NOTES	2016 US$'000	2015 US$'000
Revenue	2	**6,233,084**	7,450,992
Cost of sales		**(5,891,535)**	(7,064,953)
Gross profit		**341,549**	386,039
Other income, gains and losses	3	**217,986**	244,750
Selling expenses		**(20,489)**	(18,513)
General and administrative expenses		**(201,100)**	(187,813)
Research and development expenses		**(117,259)**	(114,633)
Impairment loss recognised for interests in associates		**–**	(8,112)
Interest expense on bank borrowings		**(936)**	(5,777)
Share of loss of associates		**(1,687)**	(5,172)
Share of loss of joint ventures		**(1,153)**	(605)
Profit before tax	4	**216,911**	290,164
Income tax expense	5	**(80,700)**	(61,500)
Profit for the year		**136,211**	228,664

	NOTE	2016 US$'000	2015 US$'000
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		**495**	(655)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(193,681)**	(241,383)
Fair value gain (loss) on available-for-sale financial assets		**48,729**	(547)
Share of translation reserve of associates		**(2,206)**	(349)
Share of translation reserve of joint ventures		**30**	(171)
		(147,128)	(242,450)
Other comprehensive expense for the year, net of income tax		**(146,633)**	(243,105)
Total comprehensive expense for the year		**(10,422)**	(14,441)
Profit (loss) for the year attributable to:			
Owners of the Company		**138,321**	229,066
Non-controlling interests		**(2,110)**	(402)
		136,211	228,664
Total comprehensive expense attributable to:			
Owners of the Company		**(8,245)**	(13,761)
Non-controlling interests		**(2,177)**	(680)
		(10,422)	(14,441)
Earnings per share	*7*		
Basic		**US1.77 cents**	US2.96 cents
Diluted		**US1.75 cents**	US2.93 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	NOTES	**2016** **US$'000**	2015 US$'000
Non-current assets			
Property, plant and equipment		**905,071**	853,547
Investment properties		**6,273**	6,515
Prepaid lease payments		**50,172**	42,317
Goodwill	*8*	**83,235**	–
Intangible assets	*9*	**19,000**	–
Available-for-sale investments	*11*	**354,181**	255,939
Interests in associates	*12*	**72,379**	29,359
Interests in joint ventures		**3,546**	3,897
Deferred tax assets		**32,426**	47,082
Deposit for acquisition of prepaid lease payments		**27,499**	30,700
Convertible notes	*13*	**60,000**	–
		1,613,782	1,269,356
Current assets			
Inventories		**375,336**	332,636
Trade and other receivables	*14*	**2,495,148**	1,595,361
Short-term investments	*15*	**929,627**	385,138
Convertible notes	*13*	**20,940**	–
Bank deposits		**158,075**	272,218
Bank balances and cash		**1,373,550**	1,950,306
		5,352,676	4,535,659
Current liabilities			
Trade and other payables	*16*	**2,769,912**	1,857,110
Bank borrowings		**418,596**	13,367
Provision		**21,172**	19,093
Tax payable		**154,565**	132,662
		3,364,245	2,022,232
Net current assets		**1,988,431**	2,513,427
Total assets less current liabilities		**3,602,213**	3,782,783

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

NOTES:

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

Amendments to IFRSs that are mandatorily effective for the current year

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

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

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 9	Financial instruments[1]
IFRS 15	Revenue from contracts with customers and the related amendments[1]
IFRS 16	Leases[2]
Amendments to IFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to IFRS 4	Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"[1]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to IAS 7	Disclosure initiative[4]
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2017.

IFRS 9 "Financial instruments"

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

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

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

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

IFRS 15 "Revenue from contracts with customers"

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

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

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

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

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

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

IFRS 16 "Leases"

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately US$4,723,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

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

2. SEGMENT INFORMATION

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

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

Segment revenue and results

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

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

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

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

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

Segment assets and liabilities

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

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

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

3. OTHER INCOME, GAINS AND LOSSES

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

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

4. PROFIT BEFORE TAX

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

5. INCOME TAX EXPENSE

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

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

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2015: 25%). Two of the Company's PRC subsidiaries were awarded with the Advanced – Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% during 2013 to 2016, respectively. Except these two subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2015: 25%).

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

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

6. DIVIDENDS

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

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

7. EARNINGS PER SHARE

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

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

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

8. GOODWILL

	US$'000
COST	
At 1 January 2015 and 31 December 2015	–
Arising on acquisition of assets and collaboration arrangement *(Note 10)*	**83,235**
At 31 December 2016	**83,235**

Valuation and allocation of goodwill

For the purposes of impairment testing, goodwill on a provisional basis has been allocated to the cash-generating unit relating to the Acquisition and Collaboration Transactions as defined in note 10 ("CGU"), comprising operation through certain subsidiaries, including the manufacturing of feature phones and smart phones.

During the year ended 31 December 2016, management of the Group determines that there is no impairment of the CGU containing goodwill.

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

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

9. INTANGIBLE ASSETS

The intangible assets represent development costs arising on the Acquisition and Collaboration Transactions as defined in note 10, which are estimated to have definite useful lives of 2 years and amortised on a straight-line basis.

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

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

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

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

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

Details of consideration are as follows:

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

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

	US$'000
Property, plant and equipment	167,759
Intangible assets	19,000
Prepaid lease payments	11,747
Inventories	23,509
Trade and other receivables	15,475
Bank balances and cash	88,462
Trade and other payables	(10,404)
Intercompany debt payable to sellers	(132,917)
Deferred tax liabilities	(7,218)
	175,413

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

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

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

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

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

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

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

The goodwill on a provisional basis arising from the Acquisition and Collaboration Transactions included amounts in relation to the benefit of expected synergies, revenue growth, future market development and new products introduction. None of the goodwill arising on the Acquisition and Collaboration Transactions is expected to be deductible for tax purposes.

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

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

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

11. AVAILABLE-FOR-SALE INVESTMENTS

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

Notes:

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

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

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

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

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

12. INTERESTS IN ASSOCIATES

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

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

Name of associate	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share/ interest held	Proportion of nominal value of issued capital/interest held by the Group 2016	2015	Proportion of voting power held by the Group 2016	2015	Principal activity
Ways Technical Corp., Ltd.	Limited company	Taiwan	Taiwan	Ordinary	**N/A**	13.04%	**N/A**	28.57%	Providing special coating surface treatment services to branded handheld devices (such as handsets and GPS) manufacturers or original designing and manufacturing companies
migme Limited	Limited company	Australia	Singapore	Ordinary	**N/A**	19.96%	**N/A**	28.57%	Operating a multi-platform mobile and internet business focusing on social networking and entertainment in emerging markets
Diabell Co., Ltd.	Limited company	Republic of Korea ("Korea")	Korea	Ordinary	**19.998%**	19.998%	**20%**	20%	Designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products
CExchange, LLC	Limited liability company	USA	USA	Class A membership interest	**30%**	30%	**30%**	30%	Engaging in the business of consumer electronics, including electronic trade-in and buy-back (including purchasing and reselling), refurbish management, overstock and return goods management and purchasing and sales representation
Rooti Labs Limited	Limited company	Cayman Islands	Taiwan	Ordinary	**28.44%**	28.44%	**28.44%**	28.44%	Research and development of wearable products
杭州耕德電子有限公司 (also known as Hangzhou Gengde Electronics Co., Ltd.)	Limited company	PRC	PRC	Equity interest	**41.18%**	41.18%	**33.33%**	33.33%	Engaging in the business of design, development and manufacturing of electronic devices and handset accessories
Mango International Group Limited ("Mango International")	Limited company	BVI	Hong Kong	Ordinary	**12.5%**	–	**33.33%**	–	Engaging in the provision of mobile devices to hotels and related hospitality technology solutions

13. CONVERTIBLE NOTES

During the year ended 31 December 2016, the Group invested in several unlisted convertible notes with principal amount of US$10,000,000, in total bearing interest at 8% per annum with a maturity date of 30 June 2017, issued by Mango International (the "CN I"). The Group is entitled at any time after the date of issue up to the 30 June 2017 to convert in whole or in part the outstanding principal amount of the convertible notes into ordinary shares of Mango International. Unless early converted, all outstanding principal amount, together with any then unpaid interest accrued from 1 January 2017 shall be due and payable in one lump sum on 30 June 2017.

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

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

14. TRADE AND OTHER RECEIVABLES

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

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

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

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

15. SHORT-TERM INVESTMENTS

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

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

16. TRADE AND OTHER PAYABLES

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

Note: The amount represented the aggregate value of the inventories to be delivered by the Group to Mango International as the consideration for CN II, details of which are set out in note 13.

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

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

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

Financial assets and financial liabilities subject to offsetting

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

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

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

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

IMPORTANT

The Group's consolidated final results for the year ended 31 December 2016 as set out in this announcement have been reviewed and audited in accordance with the relevant financial standards. The Group's results of operations in the past have fluctuated and may in the future continue to fluctuate (possibly significantly) from one period to another period. Accordingly, the Group's results of operations for any period should not be considered to be indicative of the results to be expected for any future period.

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

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

DISCUSSION AND ANALYSIS

Key Relationships with Customers, Suppliers and Employees

The Group's major customers include top international brands and Chinese brands, and accordingly, the Group has operations, R&D (research and development) centers and manufacturing facilities spanning Asia-Pacific region (e.g. China, Taiwan and India) and the Americas which are located close to its customers to better facilitate their respective local needs and enable such customers to accelerate the launch of their products to market. With customer transition, ongoing customer diversification efforts and further penetration of existing customers, there has continued to be a more healthy change in customer mix. Amongst the Group's five largest customers during the year ended 31 December 2016 which accounted for approximately 66.55% of the Group's total revenue during such year, four of them have long and well established relationships with the Group and individually has been its customer for over five years. For the remaining major customer, it has been the Group's customer for over two and a half years. The Group values the mutually beneficial relationships with its customers by providing high quality products and services to them at competitive prices, and continues to prolong and develop closer relationships with them for mutual benefit of the Group and such customers in the long run. The credit period granted to the Group's major customers are 30 to 90 days which is in line with those granted to other customers. The allowance for doubtful debt made for the year ended 31 December 2016 was US$0.7 million (when compared to that for 2015 of US$0.001 million), which allowance was made for specific exceptional circumstances only. Subsequent settlements of trade receivables from these major customers have been reviewed and are satisfactory requiring no provisions for the current period.

The Group's procurement team deals with over 3,000 suppliers who supply components and other materials necessary for the Group's handset manufacturing, with the aim to sourcing materials with competitive prices. Purchases from the Group's five largest suppliers accounted for approximately 33.67% of the Group's total purchases for the year ended 31 December 2016.

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

Employees are valuable assets to the Group and the Group has been working diligently in attracting and retaining talents. The Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified employees by offering more equal employment opportunity, competitive compensation and benefits, more favourable working environment, broader customer reach, bigger scale in resources, training and job rotation, coupled with better career prospect across many different product and business lines. The Group prides itself on providing a safe, effective and congenial work environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been implemented to ensure its working environment is healthy and safe. The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, development, rewards, and retention. The Group has built and will continue expanding large and experienced R&D teams in China and Taiwan as it has foreseen significant opportunities for business growth by investing in R&D on top of its strong manufacturing and engineering capabilities to implement and execute the corresponding R&D requirements. The Group strives to reinvent productivity to empower people and organisations to achieve more and increase agility, streamline engineering processes, move faster and more efficiently and simplify its organisation. By encouraging employees to bring up innovation at work, cooperating with customers on pioneer projects and supporting start-ups on manufacturing (or even with equity investments), the Group has successfully accumulated relevant experience. As at 31 December 2016, the Group had a total of 74,652 (2015: 81,013) employees. Total staff costs incurred during the year 2016 amounted to US$407 million (2015: US$354 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. The Company has adopted a share scheme and a share option scheme respectively. The share option scheme complies with the requirements of Chapter 17 of the Listing Rules. The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Company's performance, their duties and responsibilities with the Company, their contributions to the Company and the prevailing market practice as well as the recommendations from the Company's remuneration committee.

Review of Results and Operations

Financial Performance

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

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

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

As at 31 December 2016, the ROE (Return On Equity, representing the amount of net income returned as a percentage of shareholders' equity, which measures a company's profitability by revealing how much profit such company generates with the money that its shareholders have invested) was 3.88%, when compared with the ROE as at 31 December 2015 of 6.11%, as the net profit attributable to owners of the Company decreased during the current period. The Group strives to achieve a better ROE.

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

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

Dividends

The Board has resolved to recommend the declaration and payment of a Final Dividend of US$0.00526 per ordinary share of the Company (which in aggregate amounts to approximately US$42,000,000), and a Special Dividend of US$0.01252 per ordinary share of the Company (which in aggregate amounts to approximately US$100,000,000), respectively, for the year ended 31 December 2016, subject to the approval of the Company's Shareholders at the forthcoming Annual General Meeting. Details regarding the proposed declaration and payment of the Final Dividend and the Special Dividend are set out below.

Sales

The Group started its business serving international brands by manufacturing feature phones. With the launch of smart phones and the subsequent popularisation which has driven smart phone outsourcing, the Group has benefited from the trend. In the past couple of years, there has been market share reshuffles between international brands and other market players (like Chinese brands), and the Group saw diverse performance across its customers and there was rapid shift among certain Chinese original equipment manufacturers. During the period, competition was intensified and the market shares of some of the Group's major customers declined quite dramatically following their lackluster performance in 2015 in the dynamic and competitive handset market, and hence some of them drastically changed their outsourcing strategies through restructuring and produced in-house thereby cutting down the previously established outsourcing business with the Group, which had direct impact on the Group's sales.

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

In a slowing smart phone market where large players are experiencing growth saturation and there was a slowdown in smart phone shipments in 2016 with China showing a more mature growth pattern, emerging brands are disrupting existing brands' long-standing business models to gain their market shares. Incentives for consumers to upgrade their devices yearly have also softened, with Gartner (a research and advisory firm) noting that new devices offer only incremental upgrades over existing hardware and carriers have been moving away from subsidising upgrades. With such changing smart phone market dynamics, Chinese brands are emerging as the new top global brands. According to Gartner, two Chinese brands ranked within the top five worldwide smart phone vendors in the first quarter of 2015, and represented a total of 11% of the market shares; in the first quarter of 2016, three Chinese brands achieved a total of 17% of the market shares whilst in the third quarter of 2016, three Chinese brands together accounted for 21% of the smart phones sold to end users worldwide. They were the only smart phone vendors in the global top five to increase their sales and market shares during the quarter, according to Gartner. The success of these Chinese brands lies in their good hardware designs, robust product quality, attractive prices, strong retailer penetration, effective channel strategy, differentiated and diversified products portfolio, effective marketing initiatives and increasing brand awareness among mass-market consumers as well as well-established distribution system in offline channel.

In order to fill up the shortfall due to the drop in sales by some major customers, the Group has put efforts to continue to diversify its customer base by reducing its customer concentration and therefore the risks associated with reliance on a handful of major customers. The Group has used customer-centric approach to develop business with some of the top Chinese brand customers. These Chinese brand customers contributed a lot to the recovery of the Group's sales in the second half of 2016. Since the competition in the saturated market is fierce, the Group needs to spend more time and efforts to bring in new customers and get more order allocations from existing customers. Meanwhile, the Group pays extra attention to its cost control and competitiveness enhancement in order to offer attractive pricing to customers. For such purposes, the Group has continued to devote resources to maintain its R&D capability, advanced technology like automation and large capacity instrumental for core competence and competitive edge. Long-term win-win business relationships with the customers can then be built up, developed and fostered.

The Group has continued to review its global capacities to optimise resources and increase capacity in emerging markets like India and further align its manufacturing capacities with the geographic production demands of customers. With smart phone shipment growth slowing down, all these Chinese Original Equipment Manufacturer have to expand their reach outside of their own countries and expand beyond China and continue their growth momentum in emerging markets like India where the "Make-in-India" campaign has prompted more local and Chinese brands to seek ODM (original design manufacturing)/OEM (original equipment manufacturing)/EMS (electronics manufacturing services) partners with massive capacity in India. The Company believes that India and other emerging markets in the Asia-Pacific region will drive most of the smart phone shipment growth in the coming years. Accordingly, the Group has set up and maintained handset assembly factories in India for years and has helped certain Chinese brand customers to develop business and grab more market shares in India and overseas markets outside of China. Sales of the Group's Indian operations in the second half of 2016 were about double those in the first half of 2016.

In relation to the Group's continuous fostering and development of long-term relationships and partnerships with customers, on 18 May 2016, the Group entered into a collaboration with Nokia and HMD with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets. For 2017, the Group expects to generate more businesses from such collaboration. For details of such collaboration, please refer to the Company's relevant announcement dated 18 May 2016 and "Outlook" below.

P&L (Profit and Loss)

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

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

Operating Segments

Across overall business in 2016, through the efforts of developing business with Chinese brands, Asia segment remained the Group's core performance contributor, and the revenue of Asia segment was US$5,801 million, representing an increase of 10.1% from that for the same period last year (2015: US$5,269 million), and recorded earnings were US$368 million, which were close to the recorded earnings for the same period last year. The emerging Chinese brands have continued to gain market shares from international brands and maintain sustainability in the saturated China market due to the former's attractive pricing and localised design. Amid fierce competition, China smart phone market continues to be the focus of the Group. Years ago, the Group has shifted the gravity of operations to China (for manufacturing products for the domestic market and export and research and product development) and Taiwan (for R&D) after the downsizing of European sites, and resources have been continuously devoted to Asia segment (which is of further growth potential) so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment (including India) and develop more new businesses and customers there.

Many years ago, the Group already had manufacturing operations in Chennai of India. The Group has started to become active again in India since the second half of 2015. New production capacity was added in Andhra Pradesh State catering to the increasing domestic demands and the Indian Government's "Make-in-India" initiatives. In 2016, the Group has also established and operated a new facility in Maharashtra State which has further increased its production capacity in India.

Because of the loss of market shares and change of outsourcing strategies, certain key customers of the Group which previously shipped a lot of products to America segment reduced their orders to the Group, giving rise to a negative impact on handset shipments thereby adversely affecting performance of this segment. The recorded revenue of America segment for 2016 was US$254 million when compared with recorded revenue of US$1,868 million for the same period last year. Similar to Asia segment, negative factors have also affected the profitability of America segment. The recorded earnings for the 2016 were US$9 million when compared with the recorded earnings of US$68 million for the same period last year. The performance of America segment had an adverse impact on the Group's overall performance as sales and earnings of America segment had dropped during the period.

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

Investments

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

On 18 May 2016, the Group entered into an agreement with Microsoft Mobile Oy (as seller) and HMD (as another purchaser) to acquire certain assets of the feature phone business then operated by Microsoft Corporation, comprising a manufacturing facility in Vietnam and certain other assets that are utilised in the conduct of such feature phone business at a total consideration of US$350 million (US$20 million of which being payable by HMD), which consideration shall be subject to adjustment in accordance with the agreement (the "Acquisition"). The Company believes that the Acquisition will galvanise the Group's leading position as a vertically integrated manufacturing service provider by reinforcing and expanding its EMS and fulfillment businesses relating to feature phones in emerging or less developed markets, and that the Group will leverage its existing industry expertise, facilities, personnel and manufacturing capabilities to maximise synergies with respect to the Acquisition thereby enhancing the Group's overall commercial capabilities (in terms of design, manufacturing, logistics and distribution) in the mobile handset industry in support of businesses with more customers through the development of more global fulfillment services as well as new markets and new products. The Acquisition was closed on 30 November 2016. For details, please refer to the Company's relevant announcement dated 18 May 2016 and further announcement relating to amendment dated 1 December 2016. The Company believes that the Acquisition will bring in significant economic values to its business in the long run. For details, please refer to "Outlook" below.

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

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

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

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

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

Another investment of the Group which may worth mentioning is its US$2.5 million equity investment in MoMagic Technologies Private Limited ("MoMagic"), which helps app developers and content firms reach consumers through various means and seek cooperation in mobile networks and penetration into Indian handset market. After securing the investment from the Group in October 2015, MoMagic was able to further develop its technological and business edge and demonstrated a sustainable profitability model. In the future, MoMagic will expand its business by broadening its geographical outreach to other Asian countries, and bring in more values to its customers by providing them with analytic service of data, traffic and mobile use behaviours for more-precise e-advertising in the Indian market. As at 31 December 2016, the Group's investment represented 10% (on as-converted and fully-diluted basis) of the total issued shares of MoMagic, and its carrying value of US$2.5 million represented 0.04% of the Group's total assets.

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

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

The Group has been maintaining healthy cash flows for years. As at 31 December 2016, the Group had a cash balance of US$1,374 million, which provides the Group with adequate financial resources to cope with unforeseen operational fluctuations. In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring good investment opportunities. Apart from the existing handset manufacturing business, the Group is dedicated to exploring new business by establishing strategic partnerships with technology companies and making equity investments in companies of good potential. The Group has an experienced investment team, and has prioritised investments among the highest long-term growth prospect which may take years before investment can be realised. The Group will be cautious on expanding its investment portfolio in order to create synergies but at the same time to cope with the volatile economic environment in 2017.

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

In December 2016, from an accounting perspective, the Group lost the significant influence on migme Limited ("migme"), and therefore migme ceased to be the Group's associate. US$3.5 million of loss on deemed disposal was then recognised. For the year ended 31 December 2016, in relation to the Company's investment in migme, the Company is of the opinion that in the light of its continuous operating loss and deteriorating financial health since the fourth quarter of 2016, an impairment loss of US$7.5 million was recognised in respect of the

Group's entire investment in migme. migme is an international social media company focusing on emerging markets whose shares are listed on the Australian Stock Exchange. The Group's investment represented about 18.82% of the total issued shares of migme as at 31 December 2016.

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2016, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the Group, examples of which include those relating to foreign investment, taxation, import and export, foreign exchange control and intellectual property, and (as the Company's shares have been listed and traded on the Stock Exchange) applicable requirements laid down by the Listing Rules and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO").

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

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

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

Liquidity and Financial Resources

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

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

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

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

Net cash generated from financing activities for the year ended 31 December 2016 was US$188 million, primarily due to net increase in bank borrowings of US$407 million and dividends paid of US$219 million.

Exposures to Currency Risk and Related Hedges

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

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

Capital Commitment

As at 31 December 2016, the capital commitment of the Group was US$8.4 million (2015: US$16.9 million). Usually, the capital commitment will be funded by cash generated from operations.

Pledge of Assets

There was no pledge of the Group's assets as at 31 December 2016 and 2015.

Outlook

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

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

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

The competitive environment in the Group's industry is very intense, and aggressive pricing is a common business dynamic. China, the world's largest smart phone market, becomes mature and heavily penetrated and showed a more mature growth pattern. Phones are now increasingly capable and remain good enough for longer and this will extend the replacement cycle of smart phones. Slower growth and market saturation could bring about industry consolidation which can result in larger and more geographically diverse competitors who have significant combined resources with which to compete against the Group. As end demands for smart phones for 2017 are expected to remain at low year-on-year growth, competition from EMS/ODM/OEM peers is deemed to intensify to create pressure on the Group's business and there may be slower new customer gain with rapidly growing smart phone vendors. The Group also faces competition from the manufacturing operations of its current and potential customers, who are continually evaluating the merits of manufacturing products in-house against the advantages of outsourcing. In addition, it is estimated that even the amount of sales to the Hon Hai Group may fluctuate as the Hon Hai Group tends to be more cautious about outsourcing, taking into account its own production capacity as well as demands of its end customers which may in turn affect the amount which can be outsourced. All of these developments could potentially cause pressure on the Group's sales, loss of market acceptance of its services, compression of its profits or loss of its market share and all the challenges drive the Group to make continuous improvements.

Conditions are challenging for smart phone vendors, and the Group expects to see a consolidation of the smart phone market in the coming quarters. To compete in smart phones — a market increasingly driven by replacement demand — vendors continue to upgrade specifications and therefore, the bill of materials and costs are both going up and the resulting higher prices to extend the replacement cycle and restrain market volume in the medium term. As mentioned above, there are bright spots where Chinese OEMs continue to gain market shares since then, whose shipments have increased dramatically. These vendors are expanding beyond China, noting they are well positioned to serve emerging market demands for high-end and mid-range and low-end smart phones through utilising manufacturing cost advantages, nurturing their channels, spending on marketing, making their differentiators around technology, and positioning abundantly clear to consumers. Mobile manufacturers have opportunities to penetrate lower tier segments in regions such as emerging Asia/Pacific and EMEA (Europe, Middle East and Africa) markets, capitalising on the remaining shift from feature phones to smart phones and benefit from increased demands for affordable smart phones. While affordability is a key engine of the remaining smart phone market growth, channel strategy and knowledge of local consumer market dynamics have become increasingly important. With smart phone shipment growth slowing down, the major factor for all these Chinese OEMs will be how they manage to expand their reach outside of their own countries as in international markets, premium quality very soon devolves into price competition. The

Group can help these Chinese brands to expand aggressively and internationalise rapidly in overseas markets, and these customers want to leverage on the Group to extend their footprints in India and other emerging markets. Since 2015, given the Group's leading industry experience in managing Indian operations and broad service offerings that cover almost every part of the value chain, the Group has been expanding its local manufacturing service and component supply chain support in India to benefit from the Indian Government's "Make-in-India" initiatives, and can address both the domestic Indian market and export demands. The Group's core strategy is to establish and maintain long term relationships with leading companies in expanding businesses in terms of new products and new markets with the size and growth characteristics that can benefit from highly automated, continuous flow manufacturing on a global scale.

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

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

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

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

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

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

PROPOSED DECLARATION AND PAYMENT OF DIVIDENDS

As the proposed declaration and payment of the Dividends may or may not be approved by Shareholders at the Annual General Meeting, Shareholders and potential investors are advised to exercise caution in dealing in the Shares.

1. Final Dividend and Special Dividend

The Board has resolved to recommend the declaration and payment to each Qualifying Shareholder of the Final Dividend of US$0.00526 per Share (which in aggregate amounts to approximately US$42,000,000), and the Special Dividend of US$0.01252 per Share (which in aggregate amounts to approximately US$100,000,000), respectively, for the year ended 31 December 2016, subject to the approval of Shareholders at the Annual General Meeting. The proposed aggregate amount of the Dividends is calculated on the basis of 7,985,254,691 Shares in issue as at the date of this announcement.

Subject to the approval of Shareholders at the Annual General Meeting, the Dividends (to be rounded up to two decimal places, if necessary) are expected to be paid in cash on Friday, 16 June 2017, and the Dividend warrants will be despatched to the Qualifying Shareholders on the same date.

The Dividends will be payable in United States dollars save that those Shareholders with a registered address in Hong Kong will receive an equivalent amount in Hong Kong dollars (to be rounded up to two decimal places, if necessary) which will be calculated at the rate of exchange as quoted to the Company by its relevant banker at its middle rate of exchange prevailing on the date of the Annual General Meeting.

2. Condition to Declaration and Payment of Dividends

The declaration and payment of the Dividends are conditional upon the passing of the corresponding ordinary resolutions at the Annual General Meeting.

If the condition set out above is not satisfied, the proposed Dividends will not be declared and paid, and the cash representing the proposed Dividends will be used for the Group's general working capital purposes.

3. Reasons for Proposed Declaration and Payment of Dividends

The Board would like to declare and pay the Dividends to Shareholders to express the Board's gratitude and appreciation of the continuing support from Shareholders throughout the year ended 31 December 2016.

In addition, in light of the Group's accumulation of cash and bank balances (including bank deposits), which add up to an aggregate of approximately US$1,531,625,000 as at 31 December 2016, even with the capital expenditures and investments required to fund and support the Group's continuous growth, the Board has considered that a return of surplus cash to Shareholders will create a more efficient capital structure for the Group's business operations going forward.

Having reviewed and taken into account the Group's future capital needs and cash flow requirements (including working capital commitments, capital expenditures and identifiable investment opportunities) in support of its near-term business operations, the Board has determined that the Group would continue to have surplus cash, of which a portion could be distributed as Dividends to Shareholders in respect of the year ended 31 December 2016 and such distribution is in the interests of the Company and Shareholders as a whole.

4. Timetable

Set out below is an indicative timetable showing certain key dates regarding the Dividends for reference:

Event	Hong Kong Date and Time
Annual General Meeting and exchange rate determined for payment of Dividends in Hong Kong dollars	Thursday, 25 May 2017
Last day of trading in Shares quoted cum-Dividends	Friday, 26 May 2017
Last day of trading in Shares quoted ex-Dividends	Monday, 29 May 2017
Latest time for lodging Share transfers with the Company's Hong Kong branch share registrar for determining entitlement to the Dividends	4:30 p.m. on Wednesday, 31 May 2017
Closure of the Company's register of members for ascertaining the Qualifying Shareholders	From Thursday, 1 June 2017 to Monday, 5 June 2017
Record Date	Monday, 5 June 2017
Re-opening of the Company's register of members	Tuesday, 6 June 2017
Payment of the Dividends and despatch of the Dividend warrants	Friday, 16 June 2017

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 19 May 2017 to Thursday, 25 May 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 18 May 2017.

In addition to the closure of the Company's register of members for the purposes of the Annual General Meeting, the register of members of the Company will be closed from Thursday, 1 June 2017 to Monday, 5 June 2017, both dates inclusive, during which period no transfer of Shares will be registered. In order to become a Qualifying Shareholder, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 31 May 2017.

CORPORATE GOVERNANCE

The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2016 to 31 December 2016.

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the year ended 31 December 2016.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

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

DISCLOSURE OF INFORMATION ON WEBSITES

The annual report 2016 of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and made available on the websites of the Stock Exchange and the Company respectively in due course.

DEFINITIONS

"Annual General Meeting"	the annual general meeting of the Company to be held at Kowloon Room I, Mezzanine Level, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Hong Kong on Thursday, 25 May 2017 at 10:00 a.m. or, where the context so admits, any adjournment thereof
"Board"	the board of directors of the Company
"CG Code"	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Company"	FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
"Dividends"	collectively, the Special Dividend and the Final Dividend
"Final Dividend"	US$0.00526 per Share as recommended by the Board and subject to the approval of Shareholders at the Annual General Meeting, payable in cash to each Qualifying Shareholder
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Manual"	Corporate Governance Compliance Manual
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China

"Qualifying Shareholders"	Shareholders whose respective names appear on the register of members of the Company as at the close of business on the Record Date in order to be entitled to the proposed Dividends
"Record Date"	Monday, 5 June 2017, being the record date for determining entitlement to the proposed Dividends
"Share(s)"	ordinary share(s) with a nominal value of US$0.04 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Special Dividend"	US$0.01252 per Share as recommended by the Board and subject to the approval of Shareholders at the Annual General Meeting, payable in cash to each Qualifying Shareholder
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of the United States of America

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 9 March 2017

As at the date of this announcement, the executive directors of the Company are Messrs. Chih Yu Yang and Wang Chien Ho, and the independent non-executive directors of the Company are Messrs. Lau Siu Ki, Chen Fung Ming and Tao Yun Chih and Dr. Daniel Joseph Mehan.