FIH 富智康™

FIH Mobile Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

ANNUAL REPORT 2017

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CORPORATE INFORMATION

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

EXECUTIVE DIRECTORS

CHIH Yu Yang *(Acting Chairman and Chief Executive Officer)*
WANG Chien Ho
HUANG Chin Hsien
YU Mingjen

NON-EXECUTIVE DIRECTOR

LUO Zhongsheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih

COMPANY SECRETARY

WONG Kin Yan, Vanessa

REGISTERED OFFICE

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

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISORS

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

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

2038

CHAIRMAN'S STATEMENT

Dear Shareholders,

2017 was a tough but extraordinary year for the Group and the Group recorded a dramatic year-on-year growth in sales but significant net loss as a result of gross margin erosion and investment impairment losses and increase in operating expenses mainly related to the long term investment into the new IIDM (Integration, Innovation, Design, Manufacture) business which has contributed to the year-on-year growth in sales. We also devote resources to enhance the Group's overall competence, in terms of value and design engineering and product development, quality management, procurement, production management, logistics and distribution competence. Strategic spending and investments on R&D has been consistently increased to drive innovation through technology and new product development and such investments are the foundation of the Group to transform and grow for the future. Regarding equity investments, the Group has become cautious on expanding its investment portfolio and the Group's investment strategies will be adjusted to be more focused on the phone related hardware, software for building up the phone ecosystem portfolio including but not limited to IoT smart devices, smart home products, online gaming or others.

China is still the main focus of the Group. But there has been a noticeable slowdown in global smart phone shipments with China showing a more mature growth pattern. Our efforts in working with our Chinese customers were essential to their scale-up expansions and our supply chain management competitiveness enabled their internationalisation and expanding their reach outside China. Since 2015, the Group has been expanding its local manufacturing service and component supply chain support in India and this provides greater customer responsiveness and improved cost competitiveness. We expect the Indian manufacturing business will continue to see healthy growth in 2018 and this is demonstrated by the additional capital injection into India operation.

With the diffusion of innovation and technology, smart phone industry has been already commoditised. Highly homogenous products and market saturation and excess casing capacity in the industry have intensified the competition in the market. The year-on-year increase of sales was mainly attributable to the corresponding expansion of system assembly business. However, coupled with the intensified competition from peers and rising component price, pricing and gross margin were subject to extreme pressures. Building up scale and a strong sourcing capabilities are important to the improvement of bargaining power with suppliers and adopting the "Industry 4.0" smart manufacturing paradigm which uses automation as substitutes of manpower enables overall production line to be more controllable and manageable and turn into manufacturing efficiency. To differentiate from our competitors, our end-to-end handset manufacturing services solutions were critical in winning businesses in such challenging market environment. We had taken actions to remain lean but agile and control our manufacturing and operating expenses and rationalised our cost structure which enabled us to respond to challenges in a dynamic market.

Revenue for the year 2017 was US$12,080 million, which represents an increase of US$5,847 million or 93.8%, when compared with 2016 revenue of US$6,233 million. Loss for the year 2017 attributable to owners of the Company was US$525 million, when compared with the profit for 2016 of US$138 million. Basic loss per share for the year 2017 was US6.61 cents.

CHAIRMAN'S STATEMENT

For 2018, high-end smart phones are expected to decline while mid to low end smart phones adopting high specifications but with a more affordable price will dominate. These customer requirements posed opportunities and challenges to us. With commitment to dedicate resources to our research and development and manufacturing and engineering capabilities, we demonstrated proven technical competency to develop differentiated, innovative, customised and cost effective solutions for the customers and gives the Group natural competitive advantages. Technology has been evolving dramatically and the Group has to adapt to the Internet + Industry evolution and we will grasp the industry opportunities and make more investment in 5G and other key areas and looking ahead to design products that better meet people's increasingly demanding needs. We believe there will be growth in 2018 top line. But it still needs time to improve bottom line performance and 2018 is destined to be very challenging.

Thanks to our teamwork and determination, in 2017, in order to achieve the dramatic growth in handset shipment, the Group's entire staff has worked diligently and strived hard to meet the challenges and such perseverance laid a solid foundation for our future developments and success. For this, I would like to extend my gratitude to the management and all staff. Many thanks to the customers', shareholders', business partners' and the board of directors' support to the management team in the past year. We aim to continue to execute well and strive to make continuous improvements in the years to come.

With best regards,

CHIH Yu Yang
Acting Chairman

8 March 2018

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

CHIH Yu Yang (Mr.), Chinese (Taiwan) and aged 59, was appointed as the Acting Chairman of the Company effective 1 January 2017. He joined the Company as an executive director in August 2009. He is also the chief executive officer and the chairman of the corporate governance committee respectively of the Company. Mr. Chih is a director of Chiun Mai Communication Systems, Inc. ("CMCS"), a subsidiary of the Company in Taiwan which is the primary mobile handset design services arm of the Company and its subsidiaries (collectively, the "Group"). Mr. Chih joined the Group in 2005 when the Group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. He is also a director of certain other subsidiaries of the Company, namely Evenwell Digitech Inc., Executar International Limited, FIH Technology Korea Ltd., Greater Success Investments Limited and Transworld Holdings Limited respectively. He has 38 years of extensive experience in the communication industries. From 1997 to 2001, Mr. Chih was the vice president and general manager of Communication B.U. in BenQ (formerly Acer Communication and Multimedia, Inc.) where he was responsible for BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hua University in Taiwan in 1980.

WANG Chien Ho (Mr.), Chinese (Taiwan) and aged 58, joined the Company as an executive director on 7 June 2016. Mr. Wang joined the Company as director of electronic parts manufacturing and SMT and system assembly in June 2004. Before joining the Company, Mr. Wang joined the Hon Hai Group (comprising of 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only) ("Hon Hai"), its subsidiaries and associates (collectively, the "Hon Hai Group")) in June 1996 as an operation manager. He was then responsible for SMT and mother board manufacturing in Czech Europe as director of factory operation in 1999. In 2004, he was responsible for setting up a new factory of PCBA and engine production in FIH Europe in Hungary. Mr. Wang was promoted to a vice president responsible for ODM (original design manufacturing) operation in Shenzhen, China in 2007. From 2009, he has started to be based in northern China. Mr. Wang is an employee of the Hon Hai Group. He is also a director of certain subsidiaries of the Company, namely 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only) and 衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd. for identification purposes only) respectively. Mr. Wang also serves as a director of ShunSin Technology Holdings Limited, a limited liability company incorporated in the Cayman Islands and whose shares are listed on the Taiwan Stock Exchange Corporation. He has over 31 years of extensive experience in manufacturing operation and engineering management. Mr. Wang obtained a Bachelor degree in Electronics Engineering from Feng Chia University, Taiwan in 1982.

HUANG Chin Hsien (Mr.), Chinese (Taiwan) and aged 49, joined the Company as an executive director on 31 March 2017. He is the special assistant to the chairman of the Company as well as the head overseeing and supervising the respective functions and responsibilities of different departments of the Company, including its business control, investment management, operation management and performance management. He is also a director of certain subsidiaries of the Company, namely FIH Co., Ltd., Fu Hong Enterprises Limited and CMCS respectively. Before joining the Company, Mr. Huang has worked for more than 13 years for the Hon Hai Group. He is also a director of certain subsidiaries of Hon Hai. He has extensive experience in financial and business operation function in the fields of camera module, servo motion control system, automation, and so on. Especially in these recent 5 years, he was the special assistant to Group CFO of the Hon Hai Group. Mr. Huang is a certified public accountant in Taiwan, and worked at Arthur Andersen for 4 years since he achieved bachelor's degree in accounting from Chung Yuan Christian University in 1991.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

YU Mingjen (Mr.), Chinese (Taiwan) and aged 52, joined the Company as an executive director on 8 December 2017. He is a member of the corporate governance committee of the Company. Mr. Yu has more than 26 years of combined experiences in both financial and general management as well as the investment banking business in IPO, M&A advisory and equity and debt funds raising. Before joining the Company in December 2017, Mr. Yu was the chief financial officer and vice president of Sandmartin International Holdings Limited, whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), during the period from April to November 2017. He was the vice president of investment department at First Steamship Co., Ltd. ("First Steamship") (a listed company in Taiwan) between September 2014 and March 2017 and he had been appointed as a nominee director, on behalf of First Steamship, of Taiwan Environment Scientific Co., Ltd. (a listed company in Taiwan) during the period from December 2015 to March 2017. Mr. Yu was a remuneration committee member of Advanced Lithium Electrochemistry (Cayman) Co., Ltd. (a listed company in Taiwan) during the period from June to November 2017 and was the chief financial officer and the business group general manager at Coretronic Corporation (a listed company in Taiwan) between September 2002 and May 2011. Mr. Yu also worked for international banks and securities firms in Taiwan for more than 13 years, including (i) the executive vice president and head of investment banking department at Yuanta Securities; (ii) the vice president of investment banking department of JP Morgan Taipei; (iii) the vice president of corporate finance department at Bankers Trust (now Deutsche Bank) Taipei; and (iv) the vice president of structure finance unit at ABN Amro Bank Taipei. Mr. Yu obtained a bachelor degree of economics from Taiwan University in 1987 and a master degree of business administration from New York University in 1991.

Dr. LUO Zhongsheng (Mr.), Chinese (Mainland) and aged 53, joined the Company as an executive director on 31 March 2017 and was re-designated to a non-executive director of the Company with effect from 1 September 2017. He is the senior vice president of the Group and a director of certain subsidiaries of the Company, namely 深圳市富宏訊科技有限公司 (Shenzhen Fu Hong Xun Technology Co., Ltd. for identification purposes only), 益富可視精密工業(深圳)有限公司 (InFocus Precision Industry (Shenzhen) Co., Ltd. for identification purposes only) and Innomaxx Pte. Limited respectively. Before joining the Group in December 2016, Dr. Luo was the vice president of Coolpad Group Limited ("Coolpad"), during which period he assisted Coolpad to achieve an explosive growth in its overseas sales. He was also the vice president of ZTE Corporation ("ZTE") where he was responsible for the operation of TD-SCDMA terminal of ZTE, which he proactively promoted market development of TD terminal in China. Both Coolpad and ZTE are listed companies in Hong Kong. Dr. Luo has around 20 years' working experience in the communication industry. Apart from having ample experience in technology, research and development, sales, marketing, operations and enterprise management in the industry, he is also very familiar with the communication industry and the terminal industry and possesses a global insight. He obtained a Ph.D. degree in Engineering in Electromagnetic Field and Microwave Profession (電磁場與微波專業) from Shanghai Jiao Tong University in 1999.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

LAU Siu Ki (Mr.), Chinese (Hong Kong) and aged 59, joined the Company as an independent non-executive director in December 2004. He is the chairman of the audit committee, remuneration committee and nomination committee respectively of the Company. He is also an independent non-executive director and the chairman of the audit committee of TCL Multimedia Technology Holdings Limited. He has over 35 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing. Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. Mr. Lau was a member of the World Council of ACCA from 2002 to 2011 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. Mr. Lau also serves as an independent non-executive director of Binhai Investment Company Limited, China Medical & HealthCare Group Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Samson Holding Ltd. and TCL Multimedia Technology Holdings Limited, whose shares are listed on the Stock Exchange. Mr. Lau also serves as company secretary of Yeebo (International Holdings) Limited, Hung Fook Tong Group Holdings Limited and Expert Systems Holdings Limited (whose shares are listed on the Stock Exchange). In addition, he also served as an independent supervisor of Beijing Capital International Airport Co., Ltd., whose shares are listed on the Stock Exchange, from 30 June 2014 to 28 June 2017. He resigned as an independent non-executive director of UKF (Holdings) Limited, whose shares are listed on the Stock Exchange, effective 15 March 2016. Mr. Lau also resigned as an independent non-executive director, effective 24 October 2016, of TCL Communication Technology Holdings Limited, whose shares were delisted on the Stock Exchange, effective 30 September 2016.

Dr. Daniel Joseph MEHAN (Mr.), American and aged 73, joined the Company as an independent non-executive director in July 2007. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. He was the chief information officer of the Federal Aviation Administration from 1999 to 2005. Prior to that, Dr. Mehan was senior level executive who held a variety of leadership positions at AT&T for over 20 years, including international vice president and international chief information officer. Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development. Dr. Mehan received both his Ph.D. in Operations Research and Master of Science in Systems Engineering from University of Pennsylvania, US.

TAO Yun Chih (Mr.), Chinese (Taiwan) and aged 44, joined the Company as an independent non-executive director on 9 March 2017. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. Mr. Tao has become partner of DMC & Partners Consulting Co., which focus on providing digital transformation consulting services to traditional business owners, with effect from 1 December 2017. He is also the chairman of We Interactive (TW) Ltd., which is a start-up focusing on providing value-added professional services to live streaming platforms. Before these, he was the vice president, business partnerships in Next Entertainment (HK) Ltd., which is a start-up focusing on providing global leading pan-entertainment live streaming platform and related eco-system, and the general manager of LINE Taiwan as well as the director and general manager of LINE PAY Taiwan (both belonging to the South Korean internet search giant whose business is mainly associated with the development of mobile applications and internet services). He has over 15 years of experience in start-up, growth, management and consulting, and particularly deep insights in internet development, mobile application industry, emerging market evangelism, and digital trend. Mr. Tao received a Bachelor of Science degree in Physics from National Taiwan University, Taiwan in 1996 and a Master of Science degree in Environmental Engineering from National Taiwan University, Taiwan in 1998.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Dr. CHANG Pe Ter, Peter (Mr.), Chinese (Taiwan) and aged 58, joined the Company as senior manager of mechanical parts production in December 2008. Dr. Chang, current position as senior director, manages mechanical parts business at Lang Fang site. Before joining the Company, Dr. Chang was with Enlight Corporation since September 2002 and with the responsibility of mechanical parts of laptop/handset business development and manufacturing. Prior to that, Dr. Chang held various production and engineering management positions with the automobile industry. He has over 27 years of experience in engineering and cross functional management. Dr. Chang is also a director of certain subsidiaries of the Company, namely Extra High Enterprises Limited, 富智康精密組件（北京）有限公司 (FIH Precision Component (Beijing) Co., Ltd. for identification purposes only), FIH Precision Electronics (Lang Fang) Co., Ltd., Grand Champion Trading Limited, Honxun Electrical Industry (Hangzhou) Co., Ltd., 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only) and Transworld Communication Systems Inc. respectively. He is also a director of Ways Transworld Inc. (a joint venture of the Company). Dr. Chang also serves as a director of Ways Technical Corp., Ltd., a limited company incorporated in Taiwan and whose shares are traded on the Taiwan OTC Exchange. He received a Ph.D. degree in Mechanical Engineering/Materials from University of Massachusetts at Amherst, US in 1992.

HSIUNG Nai-Pin, Paul (Mr.), Chinese (Taiwan with US nationality) and aged 54, joined the Company as director of business development in January 2003. He is responsible for after-market-service in America region since 2012. Prior to that, Mr. Hsiung held various functions and positions in mobile phone industry with the Company. From 2003 to 2008, he was responsible for business development and project management in Florida, USA. From 2009 to 2012, he was responsible for mobile phone design and development in Florida USA, and also product manufacturing at Lang Fang, China. Before joining the Company, Mr. Hsiung was a director at Test Research, Inc. (a Taiwan listed company) for 8 years and responsible for international sales & marketing. Mr. Hsiung is also a director of certain subsidiaries of the Company, namely Excel Loyal International Limited, FIH Mexico Industry SA de CV, FIH (Tian Jin) Precision Industry Co., Ltd., Prospect Right Limited, S&B Industry, Inc., SP International, Inc., Sutech Holdings Limited and Sutech Industry Inc. respectively. He obtained a Bachelor degree of Applied Physics from Tamkang University, Taiwan and a Master degree of Computer Science from New York Institute of Technology, US.

TAM Kam Wah, Danny (Mr.), Chinese (Hong Kong with British nationality) and aged 54, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief financial officer of the Company. He is responsible for accounting and internal and external financial reporting, financial planning, taxation, investment management, internal control, investor relations, corporate governance, risk management and performance review of the Group. Mr. Tam has over 30 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. He is also the statutory auditor of FIH Technology Korea Ltd., a subsidiary of the Company in Korea. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd. (now known as China Oceanwide Holdings Limited) and he also worked as an accounting manager for Coates Brothers (HK) Co., Ltd. Mr. Tam is a fellow of the Taxation Institute of Hong Kong and an associate of Hong Kong Institute of Certified Public Accountants. He is also a certified tax adviser. Mr. Tam received a BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University, the People's Republic of China in 2005.

CHEN Hui Chung, John (Mr.), Chinese (Taiwan) and aged 56, joined the Company as senior director of finance division in August 2013. He is responsible for treasury, financial investment and financial risk management of the Group. Mr. Chen has over 28 years of experience in finance areas in Taiwan listed companies. Before joining the Company, he was the chief financial officer of Taiwan Synthetic Rubber Corp and Wan Hai Lines Ltd. respectively. Mr. Chen received a Bachelor of Transportation and Communication from National Cheng Kung University, Taiwan in 1983 and a MBA from University of California Irvine, US in 1987.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") hereby announces the annual report incorporating this report of the directors, particularly the audited consolidated results of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the consolidated financial statements on pages 139 to 141. The Group is principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. It provides a full range of manufacturing services, including ancillary logistics and distribution services, to its customers in connection with the production and distribution of handsets.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated financial statements on page 63.

BUSINESS REVIEW

Important

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

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

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

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

Introduction

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

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

Discussion and Analysis

Key Relationships with Customers, Suppliers and Employees

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

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

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

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

The Group's procurement team deals with over 3,000 suppliers who supply components and other materials necessary for the Group's businesses and the Group has long term and stable relationships with a lot of reputable and qualified approved suppliers, with the aim to sourcing good quality materials with competitive prices in a time efficient manner without the need of relying on some major suppliers. The Group's suppliers include suppliers for raw materials, electronic components and parts, display module, camera module, battery, enclosure and packaging materials, and the Group has generally selected its suppliers based on the quality and reliability of products, technical competence and engineering capability, on-time delivery, service quality, price competitiveness, the commercial terms for the supply transactions and specifications from its customers and industry reputation. Purchases from the Group's five largest suppliers accounted for approximately 57.14% of the Group's total purchases for the current period. One of such five largest suppliers is Hon Hai, the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. The purchases attributable to Hon Hai accounted for approximately 12.17% of the Group's total purchases for the current period. For details, please refer to the "The Group's Value Chain" section of the Company's separate 2017 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

In response to potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. For details, please refer to the "Accountability and Audit" section of the Company's 2017 corporate governance report, which forms part of the annual report incorporating this report of the directors.

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

Review of Results and Operations

Financial Performance

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

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

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

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

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

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

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

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

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

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

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

Dividends

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

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

Sales

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

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

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

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

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

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

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

P&L (Profit and Loss)

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

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

Across overall business in 2017, through the efforts of developing business with Chinese brands, Asia segment remained the Group's core performance contributor in terms of sales turnover and segment profit and the efforts continued in 2017. The revenue of Asia segment in the current period was US$10,242 million, representing an increase of 76.6% from that for the same period last year (31.12.2016: US$5,801 million) and the growth was mainly due to the growth of system assembly business of low margin to Chinese brand customers (including Chinese brand customers selling to India market), Indian customers and an international brand customer and increase of sales associated with the change of business model of a major Chinese brand customer from consignment to buy sell. There are also sales generated by the new business relating to the manufacturing of Nokia-branded products by the Group's manufacturing entities in India to HMD India. In the current period, Asia segment's recorded earnings were US$237 million and were less than the recorded earnings of US$368 million for the same period last year, mainly because the growth of sales arose from system assembly business of lower gross margin. Due to crowded competition and excess capacity in casing industry, gross profit and gross margin of casing business also declined. The emerging Chinese brands have continued to gain market shares from international brands and maintain sustainability in the saturated China market due to the former's attractive pricing and localised design. Amid fierce competition, China smart phone market continues to be the focus of the Group. Years ago, the Group has shifted the gravity of operations to China (for manufacturing products for the domestic market and export and research and product development) and Taiwan (for research and product development) after the downsizing of European sites, and resources have been continuously devoted to Asia segment including India (which is of further growth potential) so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment (especially India) and develop more new businesses and customers there. Apart from sales of manufactured phones, there were distribution service income earned by TNS (which is a distributor of HMD) on selling and distribution of Nokia-branded phones which are manufactured by the Group in Asia (China and India and Vietnam) to Asian and Africa emerging markets for HMD. To earn the distribution service income, TNS needs to incur operating expenses and general & administrative expenses which can be significant before scale is built up.

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

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

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

Investments

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

Investments in New Business relating to Nokia-branded Products

On 18 May 2016, the Group entered into an agreement with Microsoft Mobile Oy (as seller) and HMD (as another purchaser) to acquire certain assets of the feature phone business then operated by Microsoft Corporation, comprising a manufacturing facility in Vietnam and certain other assets that were utilised in the conduct of such feature phone business at a total consideration of US$350 million (US$20 million of which being payable by HMD). Goodwill of US$79.4 million has arisen from the above acquisition. During the year ended 31 December 2017, management determined that there is no impairment for goodwill by comparing the recoverable amounts of the cash generating unit (CGU) and carrying amounts of the CGU. For the new business relating to the Nokia-branded products as operated through the "TNS"-named entities and related entities altogether belonging to the Group (collectively, "TNS"), the collaboration among Nokia, HMD and TNS has provided for a framework among the parties with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets. Pursuant to such collaboration, while HMD has been engaging exclusively in the Nokia-branded products business, TNS has continued to develop business with HMD covering primarily the manufacture of feature phones and smart phones together with accessories in Asia (China and India and Vietnam) under the manufacturing agreement between HMD and the Group and the distribution arrangements between HMD and TNS, so that phones bought by HMD will be distributed by TNS and the Group could generate more revenue and distribution service income via TNS as well as enhance utilisation of its assets, capacities and capabilities in its handset manufacturing business and fulfillment services. The Company notes HMD's ambitious plans to become a globally recognised player in the handset and tablet markets. In the current period, the Group's strategic partnership with HMD has gradually taken shape and become much closer so as to enable the strategic partners to jointly tackle and resolve some teething problems through swift actions towards better achievement of their objectives. This demonstrated the strength of the Group, in particular, its manufacturing operations and R&D capabilities.

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

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

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

Other Major Investments

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

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

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

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

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

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

Other Miscellaneous Investments

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

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

The Group invested about US$2.2 million in Jiangsu Liang Jin E-Commerce Holdings Ltd. (the shares of which are listed and traded on the PRC's "New Third Board (NEEQ, National Equities Exchange and Quotations) with stock code: 834438.OC, "Liang Jin"), a distributor of mobile devices and accessories in the PRC. Liang Jin has successfully built up its e-commerce platform to eliminate multiple intermediaries in mobile device supply and developed businesses with certain top international brand customers. The Group not only gains exposure towards e-commerce industry, but also leverages on Liang Jin's channels to distribute its products in the PRC. Since Liang Jin's successful listing in the PRC in December 2015, the Group has enjoyed about 48% growth for its investment in Liang Jin with a value of US$3.25 million as at 31 December 2017. As a result, the Group's total investment in Liang Jin represented about 4.41% (calculated on as-converted and fully-diluted basis) of the total equity interests of Liang Jin as at 31 December 2017. In 2018, Liang Jin would mainly keep servicing the brand companies and build up a smart logistics warehousing service for the clients from brand companies to SMEs. To provide the customised products and services based on the feedback of sales activities. After IFRS 9 becomes effective in 2018, the Group has designated the investment in Liang Jin as FVTOCI, all changes in fair value will be recognised in other comprehensive income from 2018.

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

Just like investing in Meitu and Mango which the Group sells phones to, in December 2016, the Group invested US$2.5 million in a minority interest in HMD, one of the new and promising customers of the Group in Nokia-branded mobile phones and tablets. During 2017, HMD successfully expanded into 39 countries with 50 sales offices. As set out on page 22 above, business with HMD has grown significantly and the Group will consider further investment in HMD to facilitate further growth when the opportunity arises.

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

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

Other Investment-Related Matters

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

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

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

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

Compliance with Relevant Laws and Regulations

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

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

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

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

In relation to the Group's compliance with the relevant laws and regulations that have a significant impact on the Group in respect of environmental, social and governance aspects, please refer to the Company's separate 2017 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

Liquidity and Financial Resources

As at 31 December 2017, the Group had a cash balance of US$1,980 million (31.12.2016: US$1,374 million). Free cash flow, representing the net cash used in operating activities of US$113 million (31.12.2016: net cash from operating activities of US$235 million) minus capital expenditure and dividends of US$362 million (31.12.2016: US$329 million), was US$475 million outflow (31.12.2016: US$94 million outflow). The decrease in free cash flow was mainly due to more cash having been used in operating activities during 2017. The Group has abundant cash to finance its operations and investments. The Group's gearing ratio, expressed as a percentage of interest bearing external borrowings of US$713 million (31.12.2016: US$419 million) over total assets of US$8,788 million (31.12.2016: US$6,963 million), was 8.11% (31.12.2016: 6.02%). All of the external borrowings were denominated in USD (31.12.2016: USD, RMB and Japanese Yen). The Group borrowed according to real demand and there 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 1.72% to 2.4% (31.12.2016: fixed rate ranging from 0.45% to 8%) per annum with original maturity of one to six months (31.12.2016: one to six months).

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

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

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

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

Exposures to Currency Risk and Related Hedges

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

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

Capital Commitment

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

Pledge of Assets

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

Donations

The Group has, in the financial year ended 31 December 2017, made donations for charitable or other purposes to a total amount of approximately US$14,839.

Outlook

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Looking ahead, the Company understands the tremendous challenges in 2018. In response, the Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to cope with all these challenges and uncertainties from time to time as well as to maintain and enhance its performance. For details, please refer to the "Accountability and Audit" section of the Company's 2017 corporate governance report, which forms part of the annual report incorporating this report of the directors.

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

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

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

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

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

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

Environmental Policies and Performance

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

As a member of the Hon Hai Group, the Group's operations are guided by the Hon Hai Group's Social and Environmental Responsibility ("SER") Code of Conduct ("SER Code"), which sets out the Group's standards relating to code of ethics, labour rights, health and safety, environmental management system, restrictions on the use of conflict minerals and anti-corruption. Amongst these, environmental sustainability is a top priority for the Group. The Group has put in place a systematic approach towards integrating green and sustainable practices in its operations, implementing measures in the areas of environmentally-friendly product design, greenhouse gas ("GHG") emission reduction, process management, energy and resource management and supply chain management to minimise the negative impact of the Group's operations on the environment and natural resources, with the aim of attaining the international standards laid down by the ISO14001 environmental management system and the European Eco-Management and Audit Scheme.

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

The Group works to achieve the Hon Hai Group's global energy-efficiency goals, which are set annually and communicated to its business units/groups. The attainment of these goals is facilitated by the implementation of the ISO50001 energy management system which drives progress using the model of continual improvement. By leveraging a range of energy-saving and GHG emission reduction technologies, the Group actively promotes energy efficiency management and renewable energy utilisation and hence corresponding GHG emission reduction. The Group's suppliers are required to adhere to the Group's GHG emission reduction policies and establish systems, at the organisational and product levels, to monitor GHG emissions.

The Group closely controls and monitors any air pollutants which may be generated during the manufacturing and transportation processes. The functioning of air pollutant emission systems is also under routine examination. The Group actively promotes the reduction and reuse of wastewater and adopts the use of reclaimed water throughout its production lines in order to reduce the impact of manufacturing on the environment. Wastewater is closely monitored and controlled before discharge, and the functioning of wastewater handling systems is also under routine examination. The Group has a systematic approach to differentiate, control, reduce, dispose of, transport, store and recycle solid waste as well as chemicals and hazardous materials. All relevant waste is treated and disposed of in compliance with relevant environmental laws and regulations. The Group works to maximise waste recycling, and leverages design and technology to transform waste into usable resource inputs.

As a result of the Group's efforts, all of the Group's manufacturing plants in PRC and Vietnam have attained the ISO14001 environmental management system. During the year under review, major technology upgrades have been made in certain production facilities at Langfang, PRC, resulting in a year-on-year reduction of energy consumption of 95.8 TJ (Terajoule, an energy measurement unit equivalent to 10^{12} joules), and the Group's emission of GHG and production of total hazardous and non-hazardous wastes have been kept at low levels.

RESERVES

Movements in reserves of the Group during the year under review are set out on page 66.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution amounted to approximately US$2,298,471,000.

SHARE CAPITAL

Details of the movements in the share capital during the year under review are set out in note 28 to the consolidated financial statements.

A total of 106,053,805 ordinary shares and a total of 2,171,795 ordinary shares of the Company were allotted and issued at their par value of US$0.04 per share on 22 November 2017 and 28 November 2017, respectively, to the trustee for the benefit of the beneficiaries, who were not connected persons (as defined in the Listing Rules) of the Company, under the share scheme of the Company adopted by the Board on 17 October 2013 and by the shareholders of the Company on 26 November 2013 (the "Existing Share Scheme").

Save for the aforesaid, no other shares of the Company were allotted or issued in the financial year ended 31 December 2017.

FINANCIAL SUMMARY

A financial summary of the results of the Group for the last five financial years is set out on page 144.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

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

BANK LOANS

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

DIRECTORS

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

Executive Directors

CHIH Yu Yang
TONG Wen-hsin (resigned on 1 January 2017)
WANG Chien Ho
HUANG Chin Hsien (appointed on 31 March 2017)
YU Mingjen (appointed on 8 December 2017)

Non-executive Director

LUO Zhongsheng (appointed as executive director on 31 March 2017 and re-designated as non-executive director on 1 September 2017)

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih (appointed on 9 March 2017)
CHEN Fung Ming (retired on 25 May 2017)

Having received written confirmations from each of the independent non-executive directors of their independence pursuant to rule 3.13 of the Listing Rules, the Company considers each independent non-executive director to be independent. For details, please refer to the "Independent Non-executive Directors" section of the Company's 2017 corporate governance report, which forms part of the annual report incorporating this report of the directors.

Mr. CHEN Fung Ming retired on 25 May 2017 as an independent non-executive director of the Company due to his other business commitments. Mr. Chen confirmed that he had no disagreement with the Board and there was no other matter relating to his retirement that needed to be brought to the attention of the shareholders of the Company.

Pursuant to the approval of the Board on 1 September 2017, Dr. LUO Zhongsheng was re-designated as non-executive director of the Company for a term commencing from 1 September 2017 and ending on 30 March 2020 (both dates inclusive), subject to retirement and re-election under the articles of association of the Company (the "Articles"). He has entered into a director's service contract (which has been revised to reflect the re-designation) with the Company and is entitled to a revised annual emoluments package in an approximate aggregate amount of US$389,805 with a discretionary bonus to be determined by the Board from time to time with reference to the Company's performance, his duties and responsibilities with the Company, his contribution to the Group and the prevailing market practice.

Pursuant to the approval of the Board on 8 December 2017, Mr. YU Mingjen was appointed as the Company's executive director for a term of three years commencing from 8 December 2017 and ending on 7 December 2020 (both dates inclusive), subject to retirement and re-election under the Articles. He has entered into a director's service contract with the Company and is entitled to annual emoluments package of US$200,000 and a discretionary bonus to be determined by the Board from time to time with reference to the Company's performance, his duties and responsibilities with the Company, his contribution to the Company and the prevailing market practice. Mr. Yu was also appointed as the member of the corporate governance committee of the Company with effect from 8 December 2017 on which Mr. WANG Chien Ho ceased to act in such capacity.

Pursuant to article 112 of the Articles, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles, Mr. LAU Siu Ki and Dr. Daniel Joseph MEHAN will retire by rotation at the Company's forthcoming annual general meeting and, being eligible, they will offer themselves for re-election at such meeting. Pursuant to article 95 of the Articles, Mr. YU Mingyen, who was appointed as an executive director effective 8 December 2017 after the last general meeting of the Company, will hold office until the next general meeting and, being eligible, he will offer himself for re-election at the Company's forthcoming annual general meeting.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 22 November 2017, the Company granted 3,251,902 shares and 1,000,000 shares to Messrs. CHIH Yu Yang and HUANG Chin Hsien, respectively, under the Existing Share Scheme.

For details of the directors' remuneration and expense allowances for the year ended 31 December 2017, please refer to note 8 to the consolidated financial statements.

SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

PERMITTED INDEMNITY PROVISION

Article 175 of the Articles provides that (i) every director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted; and (ii) subject to the Companies Law (2011 Revision), Cap. 22 of the Cayman Islands laws (as amended from time to time), if any director of the Company or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the director or person so becoming liable as aforesaid from any loss in respect of such liability. Such permitted indemnity provision is in force during the financial year ended 31 December 2017 and at the time of approval of this report of the directors.

DISCLOSURE OF INTERESTS

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

As at 31 December 2017, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
CHIH Yu Yang	Company	Personal Interest	17,479,759	0.2160%
	Hon Hai	Personal Interest	1,054,594	0.0061%
	CMCS *(Note)*	Personal Interest	1,000	0.0007%
HUANG Chin Hsien	Company	Personal Interest	1,000,000	0.0124%
	Hon Hai	Personal Interest	914	0.00001%

Note: The Company indirectly, through its wholly-owned subsidiaries, holds approximately 87.06% of the entire number of issued shares of CMCS, a company incorporated in Taiwan.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2017, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to any director of the Company, as at 31 December 2017, shareholders (other than the directors or chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited	Beneficial owner	5,081,034,525	62.78%
Hon Hai *(Notes)*	Interest of a controlled corporation	5,081,034,525	62.78%

Notes:

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

2. Mr. WANG Chien Ho, an executive director of the Company, is an employee of the Hon Hai Group; Mr. HUANG Chin Hsien, an executive director of the Company, is a director of certain subsidiaries of Hon Hai.

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration payable to the four members of the senior management of the Company (whose biographical details are disclosed in "Profile of Directors and Senior Management" set forth in the annual report incorporating this report of the directors) during the year under review were within the following bands:

	Number of senior management
HK$1,500,001 to HK$2,000,000	1
HK$2,000,001 to HK$2,500,000	2
HK$2,500,001 to HK$3,000,000	1
	4

CONTINUING CONNECTED TRANSACTIONS

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

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

Purchase Transaction

Pursuant to the framework materials and components supply agreement entered into among the Company, Hon Hai, Innolux Corporation (formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) and 鴻準精密工業股份有限公司 (Foxconn Technology Company Limited for identification purposes only) (both being associates of Hon Hai) on 19 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016 and (as more particularly described below) 31 July 2017) (the "Purchase Agreement"), the Group has purchased materials and components from the Hon Hai Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

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

On 31 July 2017, the Company and Hon Hai entered into a supplemental agreement effective 1 July 2013 to expand the scope of materials and components contemplated thereby for the purposes of the Company's businesses from time to time.

Three new product lines of the Group began in 2016 and 2017. Anticipating additional projects from such new product lines to manufacture and sell products that might require materials and components from the Hon Hai Group under the Purchase Transaction, the Company envisaged that the then existing annual caps for the Purchase Transaction might not be sufficient. On 11 August 2017, the Company proposed to revise the then existing annual caps for the Purchase Transaction for the three years ending 31 December 2019 at US$2,260 million for 2017, US$2,482 million for 2018 and US$2,725 million for 2019, which were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

(a) the latest available actual amounts of the transactions under the Purchase Transaction during the period from 1 January 2017 to 30 June 2017 (both dates inclusive), where according to the Group's management accounts, certain transactions under the Purchase Transaction relating to the Group's three product lines which began in 2016 and 2017 recorded amounts of up to approximately US$56.9 million per month, US$18 million per month and US$47.6 million per month respectively during the aforesaid period;

(b) the historical amounts and budgets of the Purchase Transaction, where the remaining transactions under the Purchase Transaction (other than those relating to the aforesaid three product lines) amounted to approximately US$1,035.3 million for the year ended 31 December 2016;

(c) the Group's historical turnover during 2013–2016; and

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

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 for the Purchase Transaction, the Purchase Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Purchase Transaction and the relevant proposed annual caps for the three years ending 31 December 2019 were subject to the approval of the Company's shareholders other than Hoi Hai and its associates (as defined in the Listing Rules) (the "Independent Shareholders"). On 21 September 2017, the Purchase Transaction and the relevant proposed annual caps for the three years ending 31 December 2019 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Product Sales Transaction

Pursuant to the framework product sales agreement entered into among the Company, Hon Hai and Innolux Corporation (an associate of Hon Hai formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) on 18 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010, 17 October 2013 and 11 August 2016) (the "Product Sales Agreement"), the Group has sold parts or other products manufactured or owned by it to the Hon Hai Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Product Sales Agreement (the "Product Sales Transaction") constitute a continuing connected transaction for the Company, and the Company had set the then existing annual caps for the Product Sales Transaction for the three years ending 31 December 2019.

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

Anticipating additional projects to manufacture and sell products to the Hon Hai Group under the Product Sales Transaction, the Company envisaged that the then existing annual caps for the Product Sales Transaction for the three years ending 31 December 2019 might not be sufficient. Therefore, the Company proposed to revise the then existing annual caps for the Product Sales Transaction for the three years ending 31 December 2019 at US$2,147 million for 2017, US$2,357 million for 2018 and US$2,588 million for 2019.

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

(a) the latest available actual amounts of the transactions under the Product Sales Transaction during the period from 1 January 2017 to 31 March 2017 (both dates inclusive), where according to the Group's management accounts, two product lines under the Product Sales Transaction relating to a new product brand acquired by the Hon Hai Group in 2016 recorded transactions up to approximately US$71.1 million per month and US$13.2 million per month respectively during the aforesaid period;

(b) the historical growth and budgets of the Product Sales Transaction, where based on another product line of the Product Sales Transaction amounting to approximately US$420.3 million for the year ended 31 December 2016 with annual growth of 95% compared to the year earlier, such product line for the purposes of estimation of the proposed annual caps is estimated to be approximately US$819 million for the year ending 31 December 2017, and the remaining transactions under the Product Sales Transaction amounted to approximately US$265.8 million for the year ended 31 December 2016 which was close to the amount for the year earlier;

(c) the Group's historical turnover during 2013–2016; and

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

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 for the Product Sales Transaction, the Product Sales Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Product Sales Transaction and the relevant proposed annual caps for the three years ending 31 December 2019 were subject to the approval of the Independent Shareholders. On 25 May 2017, the Product Sales Transaction and the proposed annual caps for the three years ending 31 December 2019 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Non-real Property Lease Expense Transaction

Pursuant to the framework lease agreement relating to movable non-real properties dated 13 June 2013 (as amended by the respective supplemental agreements dated 17 October 2013 and 11 August 2016) between the Company and Hon Hai (the "Non-real Property Lease Expense Agreement"), the Group has leased movable non-real properties such as equipment and machines (the "Non-real Properties") from the Hon Hai Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein. The rental payable by the Group under the transactions contemplated under the Non-real Property Lease Expense Agreement (the "Non-real Property Lease Expense Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar properties in the market. If the average market rental is not available, the rental payable under the Non-real Property Lease Expense Transaction shall be determined on a "cost plus" basis. If both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Non-real Property Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

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

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

Consolidated Services and Sub-contracting Expense Transaction

Pursuant to the framework consolidated services and sub-contracting agreement entered into among the Company, Hon Hai, PCE Industry Inc. (a subsidiary of Hon Hai) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013 and 11 August 2016) (the "Consolidated Services and Sub-contracting Expense Agreement"), the Hon Hai Group has provided services including research and development services, design services, repair services and sub-contracting services to the Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

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

Equipment Purchase Transaction

Pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013 and 11 August 2016) between the Company and Hon Hai (the "Equipment Purchase Agreement"), the Group has purchased equipment from the Hon Hai Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

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

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

Sub-contracting Income Transaction

Pursuant to the framework sub-contracting agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 26 July 2012, 17 October 2013 and 11 August 2016) between the Company and Hon Hai (the "Sub-contracting Income Agreement"), the Group has provided certain services (such as molding, metal stamping for handsets and desktop computers, handset repair services and other services) to the Hon Hai Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Sub-contracting Income Agreement (the "Sub-contracting Income Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Sub-contracting Income Transaction for the three years ending 31 December 2019 at US$114 million for 2017, US$121 million for 2018 and US$130 million for 2019.

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

General Services Expense Transaction

Pursuant to the general services agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013 and 11 August 2016) between the Company and Hon Hai (the "General Services Expense Agreement"), the Hon Hai Group has provided general administrative, support, utility and other related services to the Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the General Services Expense Agreement (the "General Services Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the General Services Expense Transaction for the three years ending 31 December 2019 at US$23 million for 2017, US$24 million for 2018 and US$26 million for 2019.

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

Equipment Sale Transaction

Pursuant to the framework equipment sale agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013 and 11 August 2016) between the Company and Hon Hai (the "Equipment Sale Agreement"), the Group has sold equipment to the Hon Hai Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Equipment Sale Agreement (the "Equipment Sale Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Sale Transaction for the three years ending 31 December 2019 at US$21 million for 2017, US$22 million for 2018 and US$24 million for 2019.

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

Lease Expense Transaction

Pursuant to the framework lease agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 20 September 2006, 24 October 2007, 19 November 2010, 17 October 2013 and 11 August 2016) between 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only) (a wholly-owned subsidiary of the Company), which was subsequently replaced by the Company as the party thereto, and Hon Hai (the "Lease Expense Agreement"), the Hon Hai Group has leased premises owned by it and located worldwide to the Group from time to time as requested by the Group for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein. The rental payable by the Group under the transactions contemplated under the Lease Expense Agreement (the "Lease Expense Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market. If the average market rental is not available, the rental payable under the Lease Expense Transaction shall be determined on a "cost plus" basis. If both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set the then existing annual caps for the Lease Expense Transaction for the three years ending 31 December 2019.

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

As at the date of this report of the directors, the Company revised the then existing annual caps for the Lease Expense Transaction for the two years ending 31 December 2019 to US$8.059 million for 2018 and US$10.097 million for 2019 (the "New Annual Caps"). By way of background, in view of the forthcoming renewal of certain specific lease agreements at terms in accordance with the Lease Expense Agreement and taking into account the prevailing market rentals and the Group's additional requirement of manufacturing facilities as estimated based on the Group's business and production plan, the Company envisaged that the then existing annual caps for the Lease Expense Transaction for the two years ending 31 December 2018 and 2019 might not be sufficient and therefore set the New Annual Caps.

The New Annual Caps were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

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

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

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

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

Based on the maximum amount of the New Annual Caps, the Lease Expense Transaction together with the New Annual Caps were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements. On the date of this report of the directors, the Company published the relevant announcement.

Lease Income Transaction

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

The rental payable by the Hon Hai Group under the Lease Income Transaction shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market. If the average market rental is not available, the rental payable shall be determined on a "cost plus" basis. If both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Lease Income Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Lease Income Agreement (the "Lease Income Transaction") constitute a continuing connected transaction for the Company.

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

The Lease Income Transaction had previously been a *de minimis* continuing connected transaction for the Company exempt from the Independent Shareholders' approval, annual review and all disclosure requirements pursuant to the Listing Rules since the latest term of the Lease Income Agreement commencing from 1 January 2017. On 1 November 2017, the Company envisaged that the cumulative annual amounts of the Lease Income Transaction might reach 0.1% or more of applicable percentage ratios (as calculated in accordance with the Listing Rules), and had set annual caps for the Lease Income Transaction for the three years ending 31 December 2019 at US$3.8 million for 2017, US$4.999 million for 2018 and US$6.576 million for 2019, which were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

(a) total of the actual amounts of the Lease Income Transaction for the nine months ended 30 September 2017;

(b) the projected amount of the Lease Income Transaction for the three months ending 31 December 2017 based on the current specific lease agreements relating to the Lease Income Transaction and the Group's surplus space which may be available to be leased to the Hon Hai Group;

(c) the average annual growth rate of the Lease Income Transaction during 2014–2016; and

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

Based on the maximum amount of the aforesaid annual caps, the Lease Income Transaction together with such annual caps were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements. On 1 November 2017, the Company published the relevant announcement.

Annual Consideration

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

Continuing connected transaction	Paying Group	Total consideration for the year ended 31 December 2017 (US$'000)
Purchase Transaction	Group	1,319,529
Product Sales Transaction	Hon Hai Group	1,684,285
Non-real Property Lease Expense Transaction	Group	13,287
Consolidated Services and Sub-contracting Expense Transaction	Group	229,483
Equipment Purchase Transaction	Group	80,457
Sub-contracting Income Transaction	Hon Hai Group	104,698
General Services Expense Transaction	Group	14,706
Equipment Sale Transaction	Hon Hai Group	4,164
Lease Expense Transaction	Group	3,413
Lease Income Transaction	Hon Hai Group	3,650

Annual Review

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

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

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

2. on normal commercial terms or better; and

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

Furthermore, in respect of the continuing connected transactions of the Group for the year ended 31 December 2017 not falling under rule 14A.76(1) of the Listing Rules, the Company has followed the pricing policies set out in the relevant agreements governing them, and the independent non-executive directors of the Company confirmed that the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with such pricing policies.

For more details, please refer to the "Accountability and Audit" section set out in the Company's 2017 corporate governance report, which forms part of the annual report incorporating this report of the directors.

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

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

SHARE OPTION SCHEMES AND SHARE SCHEMES

Termination of Former Schemes and Adoption of Existing Schemes

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

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

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

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

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

Summary of Principal Terms of Existing Share Option Scheme

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

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

The total number of shares in respect of which options may be granted under the Existing Share Option Scheme shall be 757,380,227 shares, representing approximately 9.36% of the total number of issued shares of the Company as at the date of this report of the directors.

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

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

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

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

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

Information on Existing Share Scheme

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

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

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

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

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

At the Company's annual general meeting held on 25 May 2017 (the "2017 AGM"), an ordinary resolution was passed to grant a general mandate to the Board (or its duly authorised officer(s) or delegate(s)) to allot, issue and deal with additional shares under the Existing Share Scheme not exceeding 2% of the total number of issued shares of the Company as at the date of such meeting, amounting to an aggregate of 159,705,093 shares.

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

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 1 November 2016, the Company offered 101,168,760 ordinary shares to a total of 1,807 beneficiaries pursuant to the Existing Share Scheme, which shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer of the shares. 91,551,539 ordinary shares were issued on 1 November 2016 and 9,617,221 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2016.

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

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

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

As at 8 March 2018, the total issued share capital of the Company comprised 8,093,480,291 shares of US$0.04 each. Subject to the passing of an ordinary resolution approving the Scheme Mandate and on the basis that no shares will be issued, purchased or bought-back prior to the forthcoming annual general meeting, exercise in full of the Scheme Mandate will result in 161,869,605 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$2.19 per share as at 8 March 2018 and the Scheme Mandate being exercised in full, the aggregate market value of the 161,869,605 shares to be allotted and issued pursuant thereto would be approximately HK$354,494,434. The Company expects that the costs attributable to the grant of any shares under the Existing Share Scheme will be accounted for by reference to the market value of such shares at the time of grant. The Company will give due consideration to any financial impact arising from the grant of shares under the Existing Share Scheme before exercising the Scheme Mandate.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 81.34% of the Group's total revenue from sales of goods and rendering of services for the year and revenue from sales of goods and rendering of services to the Group's largest customer amounted to approximately 25.43%. Purchases from the Group's five largest suppliers accounted for approximately 57.14% of the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 22.63%.

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

PENSION SCHEMES

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

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE

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

For more details, please refer to the Company's 2017 corporate governance report, which forms part of the annual report.

AUDITORS

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

On behalf of the Board

CHIH Yu Yang
Acting Chairman

8 March 2018

Deloitte.

德勤

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

OPINION

We have audited the consolidated financial statements of FIH Mobile Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 63 to 143, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the goodwill	
We identified the impairment assessment of the goodwill as disclosed in note 34 as a key audit matter due to its complexity and the estimation uncertainty over the assumptions used by the Group's management in the assessment. As disclosed in note 4, determining an estimation of the recoverable amount of the cash-generating unit (the "CGU") to which the goodwill has been allocated, the Group engages an independent professional valuer to perform such valuation. The valuation is determined based on the cash flow projection for the CGU discounted to its present value and it requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the historical financial performance of the CGU, the relevant industry growth forecasts and financial budgets approved by the directors from the management's experience from manufacturing of related feature phones and smart phones and management's expectations for the market development. The management considers that no impairment was identified on the goodwill.	Our procedures in relation to assessing the appropriateness of the impairment assessment of the goodwill included: • Understanding the Group's estimation of the recoverable amount of the CGU, including the valuation model adopted, key assumptions used and the involvement of independent valuer appointed by the Group; • Evaluating the appropriateness of the model used to calculate the recoverable amount; • Evaluating the reasonableness of the budgeted sales and gross margin by considering the approved financial budgets, the management's business plan, the available industry and market data; • Evaluating the historical accuracy of the financial budgets prepared by the management by comparing the historical financial budgets with the actual; and • Engaging our valuation expert to evaluate the appropriateness of the valuation model adopted, discount rate and terminal growth rate used.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of unlisted equity investment in relation to Jasper Infotech Private Limited	
We identified the impairment assessment of unlisted equity investment in relation to Jasper Infotech Private Limited ("JIP") as a key audit matter due to significant management judgement involved in determining the recoverable amount of the unlisted available-for-sale investment for impairment assessment. As disclosed in note 18 to the consolidated financial statements, investment in JIP is classified as available-for-sale investment stated as cost less impairment. As set out in note 4 to the consolidated financial statements, determining the amount of impairment for JIP requires an estimation of the recoverable amount for which the Group engages an independent professional valuer to perform such valuation, which was determined based on the present value of the estimated future cash flow of JIP. This requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the relevant industry growth forecasts and financial budgets approved by JIP's management and the Group's management's expectation for the market development in India. The directors of the Company are of the view that the investment in JIP could not be recovered and thus an impairment loss of US$200,004,000 was recognised during the year ended 31 December 2017.	Our procedures in relation to evaluating the appropriateness of the management's impairment assessment of unlisted equity investment in relation to JIP included: • Understanding how the Group's management performs the impairment assessment of JIP; • Understanding the latest development and the business plan of JIP from the Group's management; • Understanding the Group's estimation of the recoverable amount of the investment in JIP, including the valuation model adopted, key assumptions used and the involvement of independent valuer appointed by the Group; • Evaluating the appropriateness of the model used to calculate the recoverable amount; • Evaluating the reasonableness of the budgeted sales and gross margin by considering the approved business plan of JIP and the available industry and market data; and • Engaging our valuation expert to evaluate the appropriateness of the valuation model adopted, discount rate and terminal growth rate used.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
8 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 US$'000	2016 US$'000
Revenue	5	12,080,110	6,233,084
Cost of sales		(11,949,780)	(5,891,535)
Gross profit		130,330	341,549
Other income, gains and losses	6	217,250	237,080
Impairment loss recognised for available-for-sale investments	18	(202,503)	(19,094)
Selling expenses		(84,318)	(20,489)
General and administrative expenses		(374,548)	(201,100)
Research and development expenses		(160,829)	(117,259)
Interest expense on bank borrowings		(11,232)	(936)
Share of loss of associates		(8,694)	(1,687)
Share of loss of joint ventures		(1,014)	(1,153)
(Loss) profit before tax	7	(495,558)	216,911
Income tax expense	10	(29,836)	(80,700)
(Loss) profit for the year		(525,394)	136,211
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		(104)	495
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		173,055	(193,681)
Fair value gain on available-for-sale investments		53,234	48,729
Share of translation reserve of associates		9,646	(2,206)
Share of translation reserve of joint ventures		267	30
Release upon partial disposal of available-for-sale investments		(14,279)	–
		221,923	(147,128)
Other comprehensive income (expense) for the year, net of income tax		221,819	(146,633)
Total comprehensive expense for the year		(303,575)	(10,422)
(Loss) profit for the year attributable to:			
Owners of the Company		(525,487)	138,321
Non-controlling interests		93	(2,110)
		(525,394)	136,211
Total comprehensive (expense) income attributable to:			
Owners of the Company		(304,062)	(8,245)
Non-controlling interests		487	(2,177)
		(303,575)	(10,422)
(Loss) earnings per share	12		
Basic		(US6.61 cents)	US1.77 cents
Diluted		N/A	US1.75 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 US$'000	2016 US$'000 (restated)
Non-current assets			
Property, plant and equipment	*13*	974,236	905,071
Investment properties	*14*	6,149	6,273
Prepaid lease payments	*15*	51,625	50,172
Goodwill	*16*	79,435	79,435
Intangible assets	*17*	10,158	19,000
Available-for-sale investments	*18*	190,187	354,181
Interests in associates	*19*	100,348	72,379
Interests in joint ventures	*20*	2,799	3,546
Deferred tax assets	*21*	43,932	32,426
Deposit for acquisition of prepaid lease payments		29,177	27,499
Convertible notes	*22*	60,000	60,000
		1,548,046	1,609,982
Current assets			
Inventories	*23*	1,024,611	375,336
Trade and other receivables	*24*	3,776,603	2,495,148
Short-term investments	*25*	426,554	929,627
Convertible notes	*22*	–	20,940
Bank deposits	*31*	31,964	158,075
Bank balances and cash	*31*	1,979,905	1,373,550
		7,239,637	5,352,676
Current liabilities			
Trade and other payables	*26*	4,644,463	2,769,912
Bank borrowings	*27*	712,600	418,596
Provision	*32*	96,896	21,172
Tax payable		125,036	154,565
		5,578,995	3,364,245
Net current assets		1,660,642	1,988,431
Total assets less current liabilities		3,208,688	3,598,413

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 US$'000	2016 US$'000 (restated)
Capital and reserves			
Share capital	*28*	323,739	319,410
Reserves	*29*	2,849,370	3,245,223
Equity attributable to owners of the Company		3,173,109	3,564,633
Non-controlling interests		6,610	6,123
Total equity		3,179,719	3,570,756
Non-current liabilities			
Deferred tax liabilities	*21*	5,362	3,790
Deferred income	*33*	23,607	23,867
		28,969	27,657
		3,208,688	3,598,413

The consolidated financial statements on pages 63 to 143 were approved and authorised for issue by the board of directors on 8 March 2018 and are signed on its behalf by:

CHIH YU YANG
DIRECTOR

WANG CHIEN HO
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 *(note 29)*	Revaluation reserve US$'000 *(note b)*	Other reserve US$'000 *(note a)*	Legal reserve US$'000 *(note 29)*	Translation reserve US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2016	315,748	1,139,789	15,514	(1,296)	(1,606)	166,831	192,838	(35,335)	1,954,459	3,746,942	8,472	3,755,414
Profit (loss) for the year	–	–	–	–	–	–	–	–	138,321	138,321	(2,110)	136,211
Other comprehensive income (expense) for the year	–	–	–	48,729	495	–	(195,790)	–	–	(146,566)	(67)	(146,633)
Total comprehensive income (expense) for the year	–	–	–	48,729	495	–	(195,790)	–	138,321	(8,245)	(2,177)	(10,422)
Issue of ordinary shares under Share Scheme	3,662	27,162	–	–	–	–	–	(30,824)	–	–	–	–
Purchase of additional interests in a subsidiary	–	–	–	–	(87)	–	–	–	–	(87)	(172)	(259)
Payment made for equity-settled share-based payments *(note 42)*	–	–	–	–	–	–	–	(3,234)	–	(3,234)	–	(3,234)
Recognition of equity-settled share-based payments *(note 42)*	–	–	–	–	–	–	–	47,856	–	47,856	–	47,856
Dividends recognised as distribution *(note 11)*	–	–	–	–	–	–	–	–	(218,599)	(218,599)	–	(218,599)
Profit appropriations	–	–	–	–	–	1,839	–	–	(1,839)	–	–	–
Balance at 31 December 2016	319,410	1,166,951	15,514	47,433	(1,198)	168,670	(2,952)	(21,537)	1,872,342	3,564,633	6,123	3,570,756
(Loss) profit for the year	–	–	–	–	–	–	–	–	(525,487)	(525,487)	93	(525,394)
Other comprehensive income (expense) for the year	–	–	–	38,955	(104)	–	182,574	–	–	221,425	394	221,819
Total comprehensive income (expense) for the year	–	–	–	38,955	(104)	–	182,574	–	(525,487)	(304,062)	487	(303,575)
Issue of ordinary shares under Share Scheme	4,329	28,672	–	–	–	–	–	(33,001)	–	–	–	–
Payment made for equity-settled share-based payments *(note 42)*	–	–	–	–	–	–	–	(3,855)	–	(3,855)	–	(3,855)
Recognition of equity-settled share-based payments *(note 42)*	–	–	–	–	–	–	–	58,393	–	58,393	–	58,393
Dividends recognised as distribution *(note 11)*	–	–	–	–	–	–	–	–	(142,000)	(142,000)	–	(142,000)
Profit appropriations	–	–	–	–	–	229	–	–	(229)	–	–	–
Balance at 31 December 2017	323,739	1,195,623	15,514	86,388	(1,302)	168,899	179,622	–	1,204,626	3,173,109	6,610	3,179,719

Notes:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 US$'000	2016 US$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	(495,558)	216,911
Adjustments for:		
Impairment loss recognised for available-for-sale investments	202,503	19,094
Depreciation and amortisation	171,342	141,378
Share-based payment expenses	58,393	47,856
Write down of inventories	69,012	27,399
Loss on disposal and write-off of property, plant and equipment	29,054	20,808
Interest expense	11,232	936
Share of loss of associates	8,694	1,687
Share of loss of joint ventures	1,014	1,153
Impairment loss recognised in respect of trade receivables	117	727
Impairment loss recognised for property, plant and equipment	–	401
Gain on disposal of prepaid lease payments	–	(618)
(Gain) loss on deemed disposal of interests in associates	(865)	180
Deferred income recognised to income	(1,665)	(1,690)
Gain on disposal of available-for-sale investments	(15,468)	–
Gain from changes in fair value of financial assets designated as fair value through profit or loss	(19,209)	(36,555)
Interest income	(38,665)	(32,322)
Operating cash flows before movements in working capital	(20,069)	407,345
Increase in inventories	(689,455)	(53,801)
Increase in trade and other receivables	(983,720)	(1,237,992)
Increase in trade and other payables	1,530,250	1,126,509
Increase in provision	74,702	3,273
Cash (used in) generated from operations	(88,292)	245,334
Income taxes paid	(65,924)	(42,340)
Interest received	45,314	35,725
Payments made for share-based payment expenses	(3,855)	(3,234)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(112,757)	235,485

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTE	2017 US$'000	2016 US$'000
INVESTING ACTIVITIES			
Purchase of short-term investments		(3,074,403)	(6,402,528)
Purchase of property, plant and equipment		(219,548)	(110,370)
Purchase of available-for-sale investments		(3,998)	(59,597)
Acquisition of investments in associates		(1,341)	(54,750)
Proceeds on settlements of short-term investments		3,636,586	5,916,356
Withdrawal of bank deposits for investing purpose		130,663	108,931
Proceeds from disposal of available-for-sale investments		29,074	–
Proceeds on disposal of property, plant and equipment		9,333	15,471
Net cash outflow from acquisition of assets and collaboration arrangement	34	–	(303,103)
Capital injection in a joint venture		–	(772)
Payment for addition of investment properties		–	(100)
Proceeds on disposal of prepaid lease payments		–	946
NET CASH FROM (USED IN) INVESTING ACTIVITIES		506,366	(889,516)
FINANCING ACTIVITIES			
Dividends paid		(142,000)	(218,599)
Bank borrowings repaid		(1,214,825)	(493,237)
Bank borrowings raised		1,508,048	899,646
Interest paid		(9,375)	(1,129)
Purchase of additional interests in a subsidiary		–	(259)
NET CASH FROM FINANCING ACTIVITIES		141,848	186,422
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		535,457	(467,609)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,373,550	1,950,306
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		70,898	(109,147)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		1,979,905	1,373,550

1. GENERAL

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

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

The consolidated financial statements are presented in United States Dollars ("US$") which is also the functional currency of the Company. Certain comparative figures have been reclassified to conform with current year's presentation. These reclassifications have no effect on financial position, profit for the year or cash flows of the Group.

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

Amendments to IFRSs that are mandatorily effective for the current year

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

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

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

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

Amendments to IAS 7 "Disclosure initiative"

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

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

A reconciliation between the opening and closing balances of these items is provided in note 38. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 38, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

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

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

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

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

IFRS 9 "Financial instruments"

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

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

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

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

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

Classification and measurement:

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in note 18: certain securities for strategic investment purpose are qualified for designation as measured at FVTOCI under IFRS 9, however, the fair value gains or losses accumulated in the revaluation reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income. The Group plans not to elect the option for the designation for the remaining securities amounting to US$107,273,000 not for strategic investment purpose and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, revaluation reserve related to these available-for-sale investments will be transferred to retained profits at 1 January 2018;

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

IFRS 9 "Financial instruments" *(Continued)*

Classification and measurement: (Continued)

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 18: certain securities amounting to US$70,134,000 for strategic investment purpose are qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the revaluation reserve. Upon initial application of IFRS 9, the fair value gain relating to these securities would be adjusted to revaluation reserve as at 1 January 2018. The Group plans not to elect the option for designating for the remaining securities to be measured at FVTOCI and will measure these securities not for strategic investment purpose at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, fair value gains related to these securities, representing the differences between cost less impairment and fair value would be adjusted to retained profits as at 1 January 2018;

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

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

Impairment

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

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

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

IFRS 15 "Revenue from contracts with customers"

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

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

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

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

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

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

Timing of revenue recognition

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

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

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

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

IFRS 16 "Leases"

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately US$5,410,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

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

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

Business combinations

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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

Investments in associates and joint ventures

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

Service income and distribution income is recognised when services are provided.

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

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

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

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, such transfer does not change the carrying amount of the property transferred.

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease terms.

Leasehold land and building for own use

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

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

Borrowing costs

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

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

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

Government grants

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs and termination benefits

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);

- net interest expense or income; and

- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item 'general and administrative expenses'. Curtailment gains and losses are accounted for as past service costs.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Short-term and other long-term employee benefits

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

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

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

Inventories

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

Research and development expenditure

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

Financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

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

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Financial assets at FVTPL (Continued)

Financial assets at FVTPL (including short-term investments and convertible notes) are stated at fair value, with any gain or loss on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other income, gains and losses' line item. Fair value is determined in the manner described in note 37.

Loans and receivables

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

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

AFS financial assets

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

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Impairment of financial assets (Continued)

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities at amortised cost

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

Effective interest method

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

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

Embedded derivatives

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment arrangements

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options or ordinary shares granted at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options or ordinary shares granted vest immediately, with a corresponding increase in equity (share compensation reserve). The fair value of the ordinary shares granted shall be measured at the market price of the shares, and the fair value of the share options granted shall be estimated by applying an option pricing model.

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Critical judgements in applying accounting policies

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

Significant influence over interests in associates

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

Classification of investments as joint ventures

位吉股份有限公司 (also known as Ways Transworld Inc.) ("Ways Transworld") and FIH RadioShack (Asia) Retail Holdings Limited ("FIH RadioShack") are limited companies whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that specify that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Ways Transworld and FIH RadioShack are classified as joint ventures of the Group (see note 20).

Key sources of estimation uncertainty

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

Impairment assessment of the goodwill

Determining an estimation of the recoverable amount of the cash-generating unit (the "CGU") to which the goodwill arising from the Acquisition and Collaboration Transactions (as defined in note 34) has been allocated, the Group engages an independent professional valuer to perform such valuation. The value in use is determined based on the cash flow projection for the CGU discounted to its present value and requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the historical financial performance of the CGU, the relevant industry growth forecasts and financial budgets approved by the directors from the management's experience from manufacturing of related feature phones and smart phones and management's expectations for the market development. Based on the assessment made by the management of the Company, no impairment was identified on the goodwill amounting to US$79,435,000 (2016: US$79,435,000) as at 31 December 2017. Where the future cash flows are less than expected, a material impairment loss may arise.

Impairment assessment of unlisted equity investments in relation to Jasper Infotech Private Limited ("JIP")

In determining the impairment loss of unlisted equity investment in relation to JIP, the amount of impairment for JIP requires an estimation of the recoverable amount for which the Group engages an independent professional valuer to perform such valuation. The recoverable amount is determined based on the cash flow projection for the estimated future cash flow discounted to its present value and requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the relevant industry growth forecasts and financial budgets approved by JIP's management and the Group's management's expectation for the market development in India.

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

Key sources of estimation uncertainty *(Continued)*

Impairment assessment of unlisted equity investments in relation to Jasper Infotech Private Limited ("JIP") (Continued)

After making such assessment, the directors of the Company are of the view that the investment in JIP could not be recovered and thus an impairment loss of US$200,004,000 (2016: nil) was recognised for JIP during the year ended 31 December 2017.

Impairment assessment of the interests in Mango International

As at 31 December 2017, included in interests in associates is an amount of the interests in Mango International of approximately US$75,564,000 (2016: US$55,895,000), details of which are disclosed in note 19. In determining the impairment loss of interests in Mango International, it requires an estimation of the recoverable amount for which the Group engages an independent professional valuer to perform a valuation that makes reference to potential investments by market investments of the shares of Mango International and the business plan of Mango International approved by the management of Mango International in the foreseeable future. After making such assessment, the directors of the Company are of the view that no impairment loss was made for Mango International as at 31 December 2017. Where the recoverable amount is less than expected, a material impairment loss may arise.

Income taxes

As at 31 December 2017, a deferred tax asset of US$2,514,000 (2016: US$1,037,000) in relation to unused tax losses of US$8,379,000 (2016: US$4,149,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of US$1,206,768,000 (2016: US$791,787,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

During the year ended 31 December 2017, an income tax of US$12,878,000 (2016: US$3,008,000) has been recognised in respect of the withholding tax provided for distributed profits of certain subsidiaries in the People's Republic of China (the "PRC"). No deferred tax has been provided for the undistributed profits of US$1,318,638,000 (2016: US$1,272,829,000) in remaining subsidiaries in the PRC as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Deferred tax assets were also recognised for other deductible temporary differences on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$196,000,000 (2016: US$84,597,000).

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

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

5. SEGMENT INFORMATION

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

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

Segment revenue and results

The Group's revenue is mainly arising from the manufacturing services and distribution income amounting to US$11,873,364,000 and US$206,746,000 (2016: manufacturing amounting to US$6,233,084,000), respectively, to its customers in connection with the production of handsets.

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

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

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

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

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

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

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information

	Year ended 31 December 2017				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	7,063	1,420	211,065	219,548
Depreciation and amortisation*	97,777	14,953	2,651	55,961	171,342
Loss on disposal and write-off of property, plant and equipment	–	23,633	–	5,421	29,054
Allowance for doubtful debts, net	116	–	1	–	117
Provision for warranty	9,965	77,567	148	–	87,680
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Gain on disposal of AFS investments	–	–	–	(15,468)	(15,468)
Impairment loss recognised for AFS investments	–	–	–	202,503	202,503
Gain from changes in fair value of financial assets designated as FVTPL	–	–	–	(19,209)	(19,209)
Write down of inventories to net realisable value	–	–	1,864	67,148	69,012

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information (Continued)

	Year ended 31 December 2016				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	6	6,788	103,576	110,370
Depreciation and amortisation*	111,005	586	3,505	26,282	141,378
(Gain) loss on disposal and write-off of property, plant and equipment and prepaid lease payments	–	(73)	4,844	15,419	20,190
Allowance (reversal of allowance) for doubtful debts, net	765	–	(38)	–	727
Provision for warranty	16,159	–	–	–	16,159
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Impairment loss recognised for AFS investments	–	–	–	19,094	19,094
Impairment loss recognised for property, plant and equipment	–	–	–	401	401
Gain from changes in fair value of financial assets designated as FVTPL	–	–	–	(36,555)	(36,555)
Write down of inventories to net realisable value	–	–	–	27,399	27,399

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

5. SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

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

	Revenue from external customers		Non-current assets	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
PRC (country of domicile)	8,429,010	4,824,773	836,731	774,092
USA	1	21	6,190	7,474
Mexico	95,675	110,730	12,093	11,428
India	3,299,922	1,281,403	50,849	23,595
Other countries	255,502	16,157	258,471	248,351
	12,080,110	6,233,084	1,164,334	1,064,940

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

Information about major customers

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

	2017 US$'000	2016 US$'000
Customer A[1]	3,071,428	972,564
Customer B[1]	2,512,930	1,211,409
Customer C[1]	1,892,892	–
Customer D[1]	1,406,551	914,310
Customer E[1]	N/A[2]	653,671

[1] Revenue from provision of manufacturing services to customers mainly located in Asia and Europe (2016: Asia) in connection with the production of handsets.

[2] The customer did not contribute over 10% of the total sales of the Group in 2017.

6. OTHER INCOME, GAINS AND LOSSES

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

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

7. (LOSS) PROFIT BEFORE TAX

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

2017	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance-based or discretionary bonus US$'000 *(Note)*	Other emoluments: Retirement benefit scheme contributions US$'000	Total 2017 US$'000
Chih Yu Yang (also acting as the chief executive)	–	95	1,457	–	1,552
Wang Chien Ho	–	700	–	–	700
Huang Chin Hsien (appointed on 31 March 2017)	–	60	273	–	333
Yu Mingjen (appointed on 8 December 2017)	–	17	–	–	17
Luo Zhongsheng (appointed on 31 March 2017)	–	378	112	–	490
Lau Siu Ki	31	9	–	–	40
Daniel Joseph Mehan	31	–	–	–	31
Tao Yun Chih (appointed on 9 March 2017)	25	–	–	–	25
Chen Fung Ming (retired on 25 May 2017)	12	–	–	–	12
Tong Wen-hsin (resigned on 1 January 2017)	–	–	–	–	–
	99	1,259	1,842	–	3,200

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

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

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

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

Neither the chief executive nor any of the directors waived any emoluments. Neither any of the directors nor the five highest paid individuals were paid as compensation for loss of office and as incentive to join or upon joining the Group during the years ended 31 December 2017 and 2016.

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2016: two) executive directors of the Company, whose emoluments are included in note 8 above. The emoluments of the remaining two (2016: three) individuals were as follows:

	2017 US$'000	2016 US$'000
Salaries and other benefits	244	192
Performance-related incentive payments	761	1,105
	1,005	1,297

Their emoluments were within the following bands:

	Number of employees	
	2017	2016
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	1	–
HK$3,000,001 to HK$3,500,000	–	–
HK$3,500,001 to HK$4,000,000	–	1
HK$4,000,001 to HK$4,500,000	–	1
HK$4,500,001 to HK$5,000,000	1	–
	2	3

10. INCOME TAX EXPENSE

	2017 US$'000	2016 US$'000
Current tax		
— Hong Kong	–	–
— Other jurisdictions	25,126	65,761
— Withholding tax for distributed profit of investments in the PRC	12,878	3,008
	38,004	68,769
Underprovision in prior years		
— Hong Kong	–	–
— Other jurisdictions	193	196
	193	196
	38,197	68,965
Deferred tax *(note 21)*		
— Current year	1,272	11,735
— Change in tax rate	(9,633)	–
	(8,361)	11,735
	29,836	80,700

10. INCOME TAX EXPENSE *(Continued)*

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

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

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

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

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

	2017 US$'000	2016 US$'000
(Loss) profit before tax	(495,558)	216,911
Tax (credit) expense at the PRC income tax rate of 25% (2016: 25%) for the year *(note)*	(123,890)	54,228
Effect of different tax rates of subsidiaries	2,178	1,845
Effect of income taxed at concessionary tax rates	(9,791)	(874)
Tax effect of expenses not deductible for tax purpose	81,730	44,092
Tax effect of income not taxable for tax purpose	(13,020)	(7,675)
Tax effect of (utilisation of) tax losses/deductible temporary differences not recognised	86,763	(14,830)
Tax effect of share of loss of associates	2,174	422
Tax effect of share of loss of joint ventures	254	288
Tax effect of change in tax rate	(9,633)	–
Withholding tax for distributed profit of investments in the PRC	12,878	3,008
Underprovision in prior years	193	196
Income tax expense for the year	29,836	80,700

Note: The domestic income tax rate of 25% (2016: 25%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

11. DIVIDENDS

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

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

12. (LOSS) EARNINGS PER SHARE

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

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2016	692,272	901,199	93,343	7,768	1,694,582
Exchange adjustments	(41,465)	(55,715)	(2,495)	(280)	(99,955)
Additions	22,100	75,277	11,981	1,012	110,370
Acquired on acquisition of assets and collaboration arrangement *(note 34)*	82,603	64,979	20,163	14	167,759
Disposals and write-off	(4,209)	(129,150)	(6,276)	(770)	(140,405)
Transfers	2,722	2,444	–	(5,166)	–
Transfer to investment properties	(172)	–	–	–	(172)
At 31 December 2016	753,851	859,034	116,716	2,578	1,732,179
Exchange adjustments	39,564	58,309	5,103	405	103,381
Additions	19,921	163,538	20,886	15,203	219,548
Disposals and write-off	(6,169)	(62,295)	(32,110)	(419)	(100,993)
Transfers	826	5,380	1,333	(7,539)	–
At 31 December 2017	807,993	1,023,966	111,928	10,228	1,954,115
DEPRECIATION AND IMPAIRMENT					
At 1 January 2016	262,494	516,300	62,241	–	841,035
Exchange adjustments	(16,409)	(31,339)	(2,100)	–	(49,848)
Charge for the year	34,919	101,181	3,546	–	139,646
Eliminated on disposals and write-off	(3,733)	(94,850)	(5,543)	–	(104,126)
Impairment loss recognised in profit or loss	–	401	–	–	401
At 31 December 2016	277,271	491,693	58,144	–	827,108
Exchange adjustments	18,234	34,529	2,675	–	55,438
Charge for the year	40,519	108,070	11,350	–	159,939
Eliminated on disposals and write-off	(6,098)	(48,517)	(7,991)	–	(62,606)
At 31 December 2017	329,926	585,775	64,178	–	979,879
CARRYING VALUES					
At 31 December 2017	478,067	438,191	47,750	10,228	974,236
At 31 December 2016	476,580	367,341	58,572	2,578	905,071

Included in the land and buildings are freehold land, located in Hungary, Mexico and India (2016: Hungary, Brasil, Mexico and India), having an aggregate cost of approximately US$11,338,000 (2016: US$10,612,000). All buildings are situated outside Hong Kong.

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

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

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

At 31 December 2017, the directors of the Company appointed independent professional appraisers to perform appraisals on the Group's principal manufacturing assets for the purpose of determining whether the assets have been impaired for those groups of assets that have impairment indications, such as changing market environment and determined that a number of those assets were impaired. No impairment losses (2016: impairment loss of US$401,000) has been recognised in respect of plant and machinery for the year.

14. INVESTMENT PROPERTIES

	US$'000
COST	
At 1 January 2016	40,136
Additions	100
Exchange adjustment	(803)
Transfer from property, plant and equipment	172
At 31 December 2016	39,605
Exchange adjustment	4,420
At 31 December 2017	44,025
DEPRECIATION	
At 1 January 2016	33,621
Exchange adjustment	(932)
Provided for the year	643
At 31 December 2016	33,332
Exchange adjustment	3,900
Provided for the year	644
At 31 December 2017	37,876
CARRYING VALUES	
At 31 December 2017	6,149
At 31 December 2016	6,273

The fair value of the Group's investment properties at 31 December 2017 was US$11,259,000 (2016: US$9,333,000). The fair value has been arrived at based on a valuation carried out by an independent valuer not connected with the Group. The fair value was determined by reference to recent market prices for similar properties in the same locations and conditions. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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

15. PREPAID LEASE PAYMENTS

The amount represents land use rights in the PRC, Vietnam and India (2016: the PRC, Vietnam and India):

	2017 US$'000	2016 US$'000
Long leases	47,213	45,962
Medium-term leases	4,412	4,210
	51,625	50,172

16. GOODWILL

	US$'000
COST	
At 1 January 2016	–
Arising on acquisition of assets and collaboration arrangement *(note 34)*	79,435
At 31 December 2016 (restated) and 31 December 2017	79,435

Valuation and allocation of goodwill

For the purposes of impairment testing, goodwill has been allocated to the CGU, relating to the Acquisition and Collaboration Transactions as defined in note 34, comprising operation through certain subsidiaries, including the manufacturing of feature phones and smart phones.

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

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

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

17. INTANGIBLE ASSETS

	US$'000
COST	
At 1 January 2016	–
Acquired on acquisition of a subsidiary *(note 34)*	19,000
At 31 December 2016	19,000
Exchange adjustments	987
At 31 December 2017	19,987
AMORTISATION	
At 1 January 2016 and 31 December 2016	–
Exchange adjustments	329
Charge for the year	9,500
At 31 December 2017	9,829
CARRYING VALUES	
At 31 December 2017	10,158
At 31 December 2016	19,000

The intangible assets represent development costs arising on the Acquisition and Collaboration Transactions as defined in note 34, which are estimated to have definite useful lives of 2 years and amortised on a straight-line basis.

18. AVAILABLE-FOR-SALE INVESTMENTS

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

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

Notes:

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

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

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

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

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

(b) The amount represents the investment in a private fund domiciled in the Cayman Islands. The investment is measured at fair value derived from observable market values of underlying assets at the end of the reporting period. As at 31 December 2017, the private fund was fully redeemed and realised a loss upon disposal of approximately US$717,000.

19. INTERESTS IN ASSOCIATES

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

19. INTERESTS IN ASSOCIATES *(Continued)*

At 31 December 2017 and 2016, the Group had interests in the following associates:

Name of associate	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share/ interest held	Proportion of nominal value of issued capital/ interest held by the Group		Proportion of voting power held by the Group		Principal activity
					2017	2016	2017	2016	
Diabell *(note a)*	Limited company	Republic of Korea ("Korea")	Korea	Ordinary	19.998%	19.998%	20%	20%	Designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products
CExchange, LLC *(note b)*	Limited liability company	USA	USA	Class A membership interest	49%	30%	49%	30%	Engaging in the business of consumer electronics, including electronic trade-in and buy-back (including purchasing and reselling), refurbish management, overstock and return goods management and purchasing and sales representation
Rooti Labs Limited	Limited company	Cayman Islands	Taiwan	Ordinary	28.44%	28.44%	28.44%	28.44%	Research and development of wearable products
杭州耕德電子有限公司 (also known as Hangzhou Gengde Electronics Co., Ltd. ("Gengde"))	Limited company	PRC	PRC	Equity interest	35%	41.18%	33.33%	33.33%	Engaging in the business of design, development and manufacturing of electronic devices and handset accessories
Mango International *(note c)*	Limited company	BVI	Hong Kong	Ordinary	15.69%	12.5%	33.33%	33.33%	Engaging in the provision of mobile devices to hotels and related hospitality technology solutions

Notes:

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

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

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

During the year ended 31 December 2017, Mango International issued some new ordinary shares to several third-party investors. As a result, the Group's interest in Mango International was diluted from 12.5% to 12.33% and a gain on deemed disposal of approximately US$865,000 was recognised in profit or loss (included in other income gains and losses) during the year. In addition, the Group acquired 2,560,123 shares through the conversion of CN I (as defined in note 22) amounting to US$20,940,000. As a result, the Group's interest in Mango International further increased from 12.33% to 15.69% since then.

Under the supplementary terms enclosed to the Mango Agreement, the Group has a right to redeem the investments in Mango International under certain circumstances. The directors of the Company is of the view that the fair value of such redemption right is insignificant as at 31 December 2017 and 2016.

19. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates

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

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

Mango International

	Year ended 31.12.2017 US$'000	Period from 14.10.2016 to 31.12.2016 US$'000
Revenue	10,428	1,711
Loss for the year/period	(73,336)	(7,499)
Total comprehensive expense for the year/period	(13,352)	(7,242)
Group's share of loss and other comprehensive expense	(2,136)	(818)

Aggregate information of associates that are not individually material

	Year ended 31.12.2017 US$'000	Year ended 31.12.2016 US$'000
Total revenue	307,237	282,718
Total profit for the year	6,840	9,429
Total other comprehensive expense	(1,214)	(7,931)
Group's share of profit (loss) and other comprehensive income (expense) of associates for the year	3,088	(3,075)

20. INTERESTS IN JOINT VENTURES

	2017 US$'000	2016 US$'000
Cost of unlisted investments in joint ventures	8,037	8,037
Share of post-acquisition loss and other comprehensive expense	(5,238)	(4,491)
	2,799	3,546

At 31 December 2017 and 2016, the Group had interests in the following joint ventures:

Name of joint venture	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held by the Group		Principal activity
					2017	2016	2017	2016	
Ways Transworld	Limited company	Taiwan	Taiwan	Ordinary	50%	50%	50%	50%	Designing and manufacturing plastic molds for handheld devices
FIH RadioShack	Limited company	Hong Kong	PRC	Ordinary	51%	51%	60% *(note)*	60% *(note)*	Sale of consumer electronics products and ancillary services

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

21. DEFERRED TAXATION

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

	Allowances for inventories and trade and other receivables US$'000	Warranty provision US$'000	Accelerated tax depreciation US$'000	Tax losses US$'000	Deferred income US$'000	Others US$'000 *(Note)*	Total US$'000
At 1 January 2016	(7,166)	(3,943)	2,403	(5,503)	(5,822)	(26,901)	(46,932)
Acquisition of assets and collaboration arrangement *(note 34)*	–	–	–	–	–	3,418	3,418
(Credit) charge to profit or loss for the year	(496)	(543)	5,337	4,199	466	2,772	11,735
Exchange adjustments	531	284	(640)	267	352	2,349	3,143
At 31 December 2016 (restated)	(7,131)	(4,202)	7,100	(1,037)	(5,004)	(18,362)	(28,636)
(Credit) charge to profit or loss for the year	(2,939)	(11,572)	1,594	(1,555)	2,244	13,500	1,272
Effect of change in tax rate	(2,464)	(1,499)	2,018	–	(2,060)	(5,628)	(9,633)
Exchange adjustments	(564)	(225)	478	78	(300)	(1,040)	(1,573)
At 31 December 2017	(13,098)	(17,498)	11,190	(2,514)	(5,120)	(11,530)	(38,570)

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

21. DEFERRED TAXATION *(Continued)*

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

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

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

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

By reference to financial budgets, management believes that there will be sufficient future taxable profits or taxable temporary differences available in the future for the realisation of deferred tax assets which have been recognised in respect of tax losses and other temporary differences.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$1,318,638,000 (2016: US$1,272,829,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

22. CONVERTIBLE NOTES

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

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

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

23. INVENTORIES

	2017 US$'000	2016 US$'000
Raw materials	711,735	222,868
Work-in-progress	118,156	71,819
Finished goods	194,720	80,649
	1,024,611	375,336

24. TRADE AND OTHER RECEIVABLES

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

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

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

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

As at the end of the reporting period, 98% (2016: 99%) of the Group's trade receivables are neither past due nor impaired, and they are mainly receivables from certain global handset manufacturers that the Group considers have good credit standing. The Group seeks to maintain strict control over the creditability of customers and their respective outstanding receivables. Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customers. The creditability of customers is reviewed regularly.

As at 31 December 2017, trade receivables with the aggregate carrying amount of approximately US$56,967,000 (2016: US$18,478,000) that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2017 US$'000	2016 US$'000
91–180 days	41,405	11,905
181–360 days	9,776	2,876
Over 360 days	5,786	3,697
	56,967	18,478

Movement in the allowance for doubtful debts:

	2017 US$'000	2016 US$'000
Balance at beginning of the year	737	38
Impairment losses recognised on receivables	119	765
Amounts recovered during the year	(2)	(38)
Exchange adjustments	49	(28)
Balance at end of the year	903	737

25. SHORT-TERM INVESTMENTS

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

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

26. TRADE AND OTHER PAYABLES

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

Note: The amount represented the aggregate value of the inventories to be delivered by the Group to Mango International as the consideration for CN II, details of which are set out in note 22.

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

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

27. BANK BORROWINGS

	2017 US$'000	2016 US$'000
Bank loans	712,600	418,596
Analysis of bank borrowings by currency:		
Renminbi ("RMB")	–	24,081
Japanese Yen ("JPY")	–	6,015
US$	712,600	388,500
	712,600	418,596

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

28. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2016, 31 December 2016 and 31 December 2017	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2016	7,893,703,152	315,748
Issue pursuant to the share scheme *(note 42(b))*	91,551,539	3,662
Balance at 31 December 2016	7,985,254,691	319,410
Issue pursuant to the share scheme *(note 42(b))*	108,225,600	4,329
Balance at 31 December 2017	8,093,480,291	323,739

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

29. RESERVES

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

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

30. DERIVATIVES

Currency derivatives

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

During the current year, a gain from the forward foreign exchange contracts of US$6,456,000 (2016: loss of US$4,554,000) was recognised in profit or loss and included in other income, gains and losses.

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

	2017 US$'000	2016 US$'000
US$	104,000	118,807

As at 31 December 2017, the fair value of the Group's currency derivatives is estimated to be approximately US$1,902,000 assets (2016: US$4,554,000 liabilities), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates, and is included as other receivables (2016: other payables) at the end of the reporting period. The contracts outstanding as at 31 December 2017 mainly related to buying of US$ (2016: US$) with maturities in the first quarter of 2018 (2016: first quarter of 2017).

31. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry interest at prevailing market rate of 4.71% (2016: 4.72%) per annum on average, with original maturity of over three months.

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate of 3.12% (2016: 1.62%) per annum on average.

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

	2017 US$'000	2016 US$'000
US$	962,722	638,078
RMB	620,797	518,275
Indian Rupee	204,955	95,810
Brazilian Real	66,715	68,247
New Taiwan Dollar	28,149	50,633
Others	128,531	160,582
	2,011,869	1,531,625

32. PROVISION

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

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

33. DEFERRED INCOME

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

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

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

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

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

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

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

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

Details of consideration are as follows:

	US$'000
Consideration satisfied by cash	258,648

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

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

Goodwill arising on the Acquisition and Collaboration Transactions:

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

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

	US$'000
Cash and cash equivalent balances acquired	88,462
Less: Cash considerations paid	(258,648)
Repayment of intercompany debt	(132,917)
	(303,103)

35. CAPITAL COMMITMENTS

	2017 US$'000	2016 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	4,335	8,443

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2017 US$'000	2016 US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	26,342	33,177

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

	2017 US$'000	2016 US$'000
Within one year	4,373	4,037
In the second to fifth years inclusive	1,037	686
	5,410	4,723

Leases are negotiated, and rentals are fixed, for an average term of one to three years (2016: one to three years).

The Group as lessor

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

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 US$'000	2016 US$'000
Financial assets		
Fair value through profit or loss		
Derivatives (included in other receivables)	1,902	–
Convertible notes	60,000	80,940
Short-term investments	426,554	929,627
	488,456	1,010,567
Available-for-sale financial assets	190,187	354,181
Loans and receivables		
Trade and other receivables	3,580,111	2,360,033
Bank deposits	31,964	158,075
Bank balances and cash	1,979,905	1,373,550
	5,591,980	3,891,658
	6,270,623	5,256,406
Financial liabilities		
Fair value through profit or loss		
Derivatives (included in other payables)	–	4,554
At amortised cost		
Trade and other payables	4,300,881	2,406,685
Bank borrowings	712,600	418,596
	5,013,481	2,825,281
	5,013,481	2,829,835

(b) Financial risk management objectives and policies

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

37. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 27 for details of these borrowings). The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise.

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

Currency risk

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

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

As at 31 December 2017, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US$104,000,000 (2016: US$118,807,000), and their fair values are estimated to be approximately US$1,902,000 assets (2016: US$4,554,000 liabilities), and are included as other receivables (2016: other payables), at the end of the reporting period. The contracts mainly related to buying of US$ (2016: US$) with maturities in first quarter of the following year.

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

	2017 US$'000	2016 US$'000
Assets		
US$	2,291,025	2,020,879
Liabilities		
US$	(2,125,396)	(1,424,704)

At the end of the reporting periods, no bank borrowings (2016: US$30,096,000) are denominated in currency (2016: RMB and JPY) other than the functional currency of respective group entities and are included in the monetary liabilities disclosed above.

37. FINANCIAL INSTRUMENTS *(Continued)*

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

***Market risk** (Continued)*

Exchange rate sensitivity

At the end of the reporting period, in respect of monetary items (excluding derivatives) denominated in currency other than the functional currency of respective group entities, if exchange rates of the functional currency against US$ had been appreciated/depreciated by 3% (2016: 3%) and all other variables were held constant, the Group's pre-tax loss would increase/decrease (2016: profit would decrease/increase) by approximately US$2,927,000 (2016: US$15,740,000) for the year and the Group's exchange reserve would decrease/increase by US$91,272,000 (2016: decrease/increase by US$89,115,000) for the year. In the current year, global currency market was tremendously volatile. Exchange rates of US$ versus other currencies fluctuated over the year which affected the fair values of the monetary items, such as forward foreign exchange contracts, trade and other receivables and bank borrowings of the Group, especially RMB, for which RMB/US$ exchange rate ranged between 0.1449 and 0.1530 (2016: ranged between 0.1442 and 0.1548) in the current year. The effect of such fluctuation is closely monitored by the management of the Group to minimise the related effect on the overall result of the Group.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2017 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. A major portion of the Group's trade receivables are receivables from industry leaders or multinational customers with good financial background.

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

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

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

37. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

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

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are one to six months (2016: one to six months) and the maturity periods of other financial liabilities are within three months. Out of the total bank borrowings, bank borrowing of US$90,000,000 (2016: US$34,661,000) contains a repayment on demand clause.

As at 31 December 2017, the Group has available unutilised banking facilities of approximately US$1,249,638,000 (2016: US$1,833,074,000). There was no pledge of assets in relation to the banking facilities as at 31 December 2017 and 2016.

(c) Fair value measurements of financial instruments

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

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

37. FINANCIAL INSTRUMENTS *(Continued)*

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

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

Financial assets/ financial liabilities	Fair value as at 31.12.2017 US$'000	Fair value as at 31.12.2016 US$'000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Listed equity investments classified as available-for-sale investments in the consolidated financial statements	Listed equity investments — 116,853	Listed equity investments — 77,477	Level 1	Quoted bid prices in an active market	N/A	N/A
Forward foreign exchange contracts classified as other receivables (2016: other payables) in the consolidated statement of financial position	Assets — 1,902	Liabilities — 4,554	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
Private fund classified as AFS investment in the consolidated financial statements	Nil	Investment in a private fund domiciled in the Cayman Islands — 7,114	Level 2	Fair value derived from observable market values of underlying assets quoted by relevant stock exchanges at the end of the reporting period	N/A	N/A
Investment in interest bearing instruments classified as short-term investments designated as financial assets at FVTPL in the consolidated financial statements	Investment in interest bearing instruments — 426,554	Investment in interest bearing instruments — 929,627	Level 3	Income approach — discounted cash flow method was used to capture the present value of the expected return guaranteed, assumed to approximate the minimum return, based on the Group's experience with the deposits which have matured to date	Expected guaranteed interest rate, mainly taken into account different counterpart financial institution, which ranged from 3.60% to 4.70% (2016: 2.85% to 4.00%) per annum	The higher the expected guaranteed interest rate, the higher the fair value, and vice versa
CN I (defined in note 22) designated as financial assets at FVTPL in the consolidated financial statements	Nil	Convertible notes — 20,940	Level 3	Binomial option pricing model. Expected volatility: N/A (2016: 22.59%) Share price: N/A (2016: US$8.28) Exercise price: N/A (2016: US$3.92)	Expected volatility of N/A (2016: 22.59%) taking into account the historical volatility of share prices of the public listed companies that are considered to be comparable	An increase in the expected volatility used in isolation would result in an increase in the fair value measurement of the convertible notes
CN II (defined in note 22) designated as financial assets at FVTPL in the consolidated financial statements	Convertible notes — 60,000	Convertible notes — 60,000	Level 2	Fair value derived from market value of the shares of Mango International in potential investment transaction (2016: recent investment transactions)	N/A	N/A

There were no transfers among level 1 to 3 during the years ended 31 December 2017 and 2016.

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

37. FINANCIAL INSTRUMENTS *(Continued)*

(d) Financial assets and financial liabilities subject to offsetting

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

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

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

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

During the year, net interest income of US$14,494,000 (2016: US$7,154,000) was included in interest income under the above arrangement.

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Dividend payables US$'000 (Note 11)	Interest payables US$'000	Bank borrowings US$'000 (Note 27)	Total US$'000
At 1 January 2017	–	43	418,596	418,639
Financing cash flows	(142,000)	(9,375)	293,223	141,848
Interest expenses	–	11,232	–	11,232
Dividend declared	142,000	–	–	142,000
Foreign exchange translation	–	–	781	781
At 31 December 2017	–	1,900	712,600	714,500

39. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2017, part of the considerations for the purchase of several unlisted equity investments during the year comprised inventories and services of approximately US$6,000,000 (2016: US$2,374,000).

During the year ended 31 December 2017, part of the deferred consideration to Mango International was settled by delivery of inventories with an aggregate value of US$40,880,000.

During the year ended 31 December 2016, the Group acquired CN I by delivery of inventories with an aggregate value of US$10,000,000.

40. RELATED PARTY TRANSACTIONS

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

	2017 US$'000	2016 US$'000
Hon Hai		
Sales of goods	1,501	226
Purchase of goods	33,644	91,120
Purchase of property, plant and equipment	5,800	2,670
Sales of property, plant and equipment	5	4
Lease expense — real properties	726	778
Subcontracting income	60,450	25,594
Consolidated services and subcontracting expense	2,944	1,724
General service income	–	327
General service expense	77	–
Subsidiaries of Hon Hai		
Sales of goods	462,724	684,366
Purchase of goods	597,260	868,448
Purchase of property, plant and equipment	71,267	51,087
Sales of property, plant and equipment	3,501	10,750
Lease income — real properties	3,450	2,090
Lease income — non-real properties	490	335
Lease expense — real properties	2,673	2,604
Lease expense — non-real properties	13,237	14,925
Subcontracting income	34,883	48,191
Consolidated services and subcontracting expense	212,574	220,559
General service income	1,025	1,190
General service expense	14,625	15,031
Associates of Hon Hai		
Sales of goods	1,220,060	184,347
Purchase of goods	688,625	181,972
Purchase of property, plant and equipment	3,390	5,947
Sales of property, plant and equipment	658	79
Lease income — real properties	200	–
Lease income — non-real properties	13	28
Lease expense — real properties	14	14
Lease expense — non-real properties	50	14
Subcontracting income	9,365	3
Consolidated services and subcontracting expense	13,965	12,383
General service income	4	–
General service expense	4	143

40. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2017 US$'000	2016 US$'000
Trade receivables:		
Hon Hai	46,222	3,304
Subsidiaries of Hon Hai	194,215	300,911
Associates of Hon Hai	286,934	2,060
	527,371	306,275
Other receivables:		
Subsidiaries of Hon Hai	258	3,633
Associates of Hon Hai	691	3,568
	949	7,201
	528,320	313,476
Trade payables:		
Hon Hai	2,960	44,672
Subsidiaries of Hon Hai	372,786	686,565
Associates of Hon Hai	274,454	65,712
	650,200	796,949
Other payables:		
Hon Hai	144	85
Subsidiaries of Hon Hai	38,496	15,972
Associates of Hon Hai	1,355	1,104
	39,995	17,161
	690,195	814,110

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

40. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

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

	2017 US$'000	2016 US$'000
Short-term benefits	3,918	2,449
Share-based payments	1,936	5,871
	5,854	8,320

(d) During the year, the Group enter into the following transactions with associates and a joint venture (2016: associates and a joint venture):

	2017 US$'000	2016 US$'000
Sales of goods	49,491	15,102
Purchase of goods	266,810	173,948
Other income	23,103	22,760
Other expense	45	1,105

The amounts due to associates and a joint venture were US$83,967,000 (2016: the amounts due to associates and a joint venture were US$43,690,000), which were included in other payables as at 31 December 2017.

41. RETIREMENT BENEFITS PLANS

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

Certain subsidiaries of the Company operate defined benefit plans in Taiwan and Korea. Under the schemes, the employees are entitled to retirement benefits on attainment of a retirement age ranging from 55 to 60. The most recent actuarial valuations of plan assets and the present values of the defined benefit obligations were carried out at 31 December 2017 by independent valuers, Greatfine Wealth Management Consulting Inc. and Aon Hewitt Korea, respectively. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The principal actuarial assumptions used were as follows:

	2017	2016
Discount rate	1.39%–2.98%	1.50%–2.20%
Expected rate of salary increases	3.00%–9.00%	3.00%–5.00%

The actuarial valuations showed that the market value of plan assets was US$6,654,000 (2016: US$6,031,000) and that the actuarial value of these assets represented 120% (2016: 128%) of the benefits that had accrued to members.

41. RETIREMENT BENEFITS PLANS *(Continued)*

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

	2017 US$'000	2016 US$'000
Service cost:		
Current service cost	280	299
Net interest income	(21)	(3)
Components of defined benefit costs recognised in profit or loss	259	296
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest income)	12	10
Actuarial gains and losses arising from changes in demographic assumptions	(40)	92
Actuarial gains and losses arising from changes in financial assumptions	50	(603)
Actuarial gains and losses arising from experience adjustments	274	(255)
Components of defined benefit costs recognised in other comprehensive income	296	(756)
Total	555	(460)

Of the charge for the year, US$259,000 (2016: US$296,000) has been included in administrative expenses.

The actual return on plan assets was US$106,000 (2016: US$93,000) for the year ended 31 December 2017.

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

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

	2017 US$'000	2016 US$'000
Present value of funded defined benefit obligations	5,548	4,726
Fair value of plan assets	(6,654)	(6,031)
Surplus	(1,106)	(1,305)
Net asset arising from defined benefit obligations (included in other receivables)	(1,106)	(1,305)

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

42. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

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

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

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

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

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

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

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

Currently, no options have been granted under the Option Scheme. No share option is exercisable as at 31 December 2017 and 2016.

No expense in relation to the share options granted by the Company was recognised by the Group for the year ended 31 December 2017 and 2016.

(b) Other share-based payment plan

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

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

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

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

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

The Group recognised total expense of US$58,393,000 (2016: US$47,856,000) for the year ended 31 December 2017 in relation to the ordinary shares awarded by the Company under the Share Scheme.

43. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2017 and 2016:

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2017	2016	2017	2016	
Chiun Mai Communication Systems, Inc.	Limited company	Taiwan	NT$1,500,000,000	–	–	87.06%	86.82%	Design and manufacture of handsets
Extra Right Enterprises Limited	Limited company	British Virgin Islands/PRC	US$1	–	–	100%	100%	Provision of services to group companies
FIH (Hong Kong) Limited	Limited company	Hong Kong/PRC	HK$155,146,001	–	–	100%	100%	Trading of handsets
FIH Co., Ltd.	Limited company	Taiwan	NT$1,000,000	100%	100%	–	–	Provision of services to group companies
FIH Mexico Industry SA de CV	Limited company	Mexico	MXN2,007,283,685	–	–	100%	100%	Manufacture of handsets
富智康精密組件（北京）有限公司 (FIH Precision Component (BeiJing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$68,800,000	–	–	100%	100%	Manufacture of handsets
宏訊電子工業（杭州）有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$126,800,000	–	–	100%	100%	Manufacture of handsets
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$178,520,000	–	–	100%	100%	Manufacture of handsets
S&B Industry, Inc.	Corporation	USA	US$31,817,356	–	–	100%	100%	Repair services
Success World Holdings Limited	Limited company	Hong Kong	HK$1,049,044,500	100%	100%	–	–	Investment holding
Sutech Industry Inc.	Corporation	USA	US$10,000	–	–	100%	100%	Provision of logistics services to group companies
FIH do Brasil Indústria e Comércio de Eletrônicos Ltda.	Limited company	Brasil	BRL550,532,590	–	–	100%	100%	Manufacture of handsets
富智康（南京）通訊有限公司 (FIH (Nan Jing) Communications Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$17,500,000	–	–	100%	100%	Research and development; sales

43. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2017	2016	2017	2016	
貴州富智康精密電子有限公司	Limited company	PRC	RMB10,000,000	–	–	100%	100%	Research and development; sales
Rising Stars Mobile India Private Limited	Limited company	India	INR6,638,699,900	–	–	100%	100%	Manufacture of handsets
富泰京精密電子（北京）有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$75,000,000	–	–	100%	100%	Manufacture of handsets
富泰京精密電子（煙台）有限公司 (Futaijing Precision Electronics (Yantai) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$20,000,000	–	–	100%	100%	Manufacture of handsets
富智康精密電子（廊坊）有限公司 (FIH Precision Electronics (Lang Fang) Co., Ltd.)	Sino-foreign jointly owned enterprise	PRC	US$475,500,000	–	–	100%	100%	Manufacture of handsets
富智康（成都）通訊科技有限公司 (FIH (Chengdu) Communication Technology Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$7,600,000	–	–	100%	100%	Research and development; sales
南寧富泰宏精密工業有限公司 (Nanning Futaihong Precision Industrial Co., Ltd.*)	Sino-foreign jointly owned enterprise	PRC	US$50,000,000	–	–	100%	100%	Manufacture of handsets and communication products
衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd*)	Limited company	PRC	RMB50,000,000	–	–	100%	100%	Manufacturing, import and export
FIH Technology Korea Ltd.	Limited company	Korea	KRW1,100,000,000	–	–	100%	100%	Research and development; project management
KSB International Limited	Limited company	Korea	KRW50,000,000	–	–	100%	100%	Provision of logistics services to group companies; sales
TNS Mobile Oy	Limited company	Finland	EUR2,500	–	–	100%	100%	Distribution of handsets

43. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2017	2016	2017	2016	
益富可視精密工業（深圳）有限公司(InFocus Precision Industry (Shenzhen) Co., Ltd.*)	Limited company	PRC	RMB42,081,195	–	–	100%	–	Trading of handsets
InFocus Consumer International Pte. Limited	Limited company	Singapore	SGD1	–	–	100%	–	Trading of handsets
Fushan Technology (Vietnam) Limited Liability Company	Limited company	Vietnam	VND 682,440,000,000	–	–	100%	100%	Manufacture of handset
FIH Singapore Trading Pte. Ltd.	Limited company	Singapore	US$1	–	–	100%	–	Trading of handsets
天恩仕（北京）貿易有限公司	Wholly foreign owned enterprise	PRC	RMB4,655,000	–	–	100%	–	Distribution of handsets

* *for identification purposes only*

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

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

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

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 US$'000	2016 US$'000
ASSETS		
Investments in subsidiaries	1,482,697	1,482,697
Other receivables	51	431
Prepayments	93	82
Amounts due from subsidiaries	1,942,226	1,402,841
Bank balances and cash	2,527	28,421
	3,427,594	2,914,472
LIABILITIES		
Bank borrowings	672,600	412,581
Other payables	448	3,134
Amounts due to subsidiaries	132,336	130,864
	805,384	546,579
NET ASSETS	2,622,210	2,367,893
CAPITAL AND RESERVES		
Share capital	323,739	319,410
Share premium	1,195,623	1,166,951
Reserves	1,102,848	881,532
TOTAL EQUITY	2,622,210	2,367,893

Under the Companies Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to approximately US$2,298,471,000 (2016: US$2,070,020,000), consisted of share premium of approximately US$1,195,623,000 (2016: US$1,166,951,000) and retained profits of approximately US$1,102,848,000 (2016: US$903,069,000).

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

Movement in reserves

	Share premium US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2016	1,139,789	(35,335)	889,380	1,993,834
Profit for the year	–	–	232,288	232,288
Issue of ordinary shares under Share Scheme	27,162	(30,824)	–	(3,662)
Payment made for equity-settled share-based payments	–	(3,234)	–	(3,234)
Recognition of equity-settled share-based payments	–	47,856	–	47,856
Dividends recognised as distribution	–	–	(218,599)	(218,599)
Balance at 31 December 2016	1,166,951	(21,537)	903,069	2,048,483
Profit for the year	–	–	341,779	341,779
Issue of ordinary shares under Share Scheme	28,672	(33,001)	–	(4,329)
Payment made for equity-settled share-based payments	–	(3,855)	–	(3,855)
Recognition of equity-settled share-based payments	–	58,393	–	58,393
Dividends recognised as distribution	–	–	(142,000)	(142,000)
Balance at 31 December 2017	1,195,623	–	1,102,848	2,298,471

FINANCIAL SUMMARY

	For the year ended 31 December				
	2013 (US$'million)	2014 (US$'million)	2015 (US$'million)	2016 (US$'million)	**2017 (US$'million)**
Results					
Revenue	4,996.95	6,829.89	7,450.99	6,233.08	**12,080.11**
Profit (loss) from operations	107.06	278.59	295.94	217.85	**(484.33)**
Interest expenses	(6.12)	(10.44)	(5.78)	(0.94)	**(11.23)**
Profit (loss) before tax	100.94	268.15	290.16	216.91	**(495.56)**
Income tax expense	(23.66)	(98.84)	(61.50)	(80.70)	**(29.83)**
Profit (loss) after tax and before non-controlling interests	77.28	169.31	228.66	136.21	**(525.39)**
Non-controlling interests	0.43	0.13	0.41	2.11	**(0.10)**
Net profit (loss) for the year	77.71	169.44	229.07	138.32	**(525.49)**

	As at 31 December				
	2013 (US$'million)	2014 (US$'million)	2015 (US$'million)	2016 (US$'million)	**2017 (US$'million)**
				(restated)	
Assets and liabilities					
Total assets	5,585.77	6,822.52	5,805.01	6,962.65	**8,787.68**
Total liabilities	(1,877.28)	(2,892.65)	(2,049.60)	(3,391.90)	**(5,607.96)**
Non-controlling interests	(9.82)	(9.15)	(8.47)	(6.12)	**(6.61)**
Capital and reserves	3,698.67	3,920.72	3,746.94	3,564.63	**3,173.11**

CORPORATE GOVERNANCE REPORT

This corporate governance report is issued as of 8 March 2018. The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2017 to 31 December 2017.

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

THE BOARD

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

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

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

The Board currently consists of four executive directors, one non-executive director and three independent non-executive directors.

Executive Directors

CHIH Yu Yang *(acting chairman effective 1 January 2017, chief executive officer and chairman of the corporate governance committee)*

WANG Chien Ho *(ceasing to be member of the corporate governance committee effective 8 December 2017)*

HUANG Chin Hsien *(executive director effective 31 March 2017)*

YU Mingjen *(executive director and, in place of WANG Chien Ho, member of the corporate governance committee effective 8 December 2017)*

Non-executive Director

LUO Zhongsheng *(executive director effective 31 March 2017 and re-designated as non-executive director effective 1 September 2017)*

Independent Non-executive Directors

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

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

TAO Yun Chih *(independent non-executive director effective 9 March 2017 and, in place of CHEN Fung Ming, member of the audit committee, remuneration committee and nomination committee respectively effective 25 May 2017)*

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

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

In accordance with the Articles, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every director shall be subject to retirement by rotation at an annual general meeting at least once every three years. The directors to retire in the relevant year will be those who have been longest in office since their last re-election.

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

The Board meets regularly and Board meetings are held at least four times a year to discuss principally the overall strategies as well as the operational and financial performance of the Group, and (in relation to the first and third regular Board meetings) to review and approve the Company's final results and interim results, respectively. At least fourteen days' notice (in relation to each regular Board meeting) or a reasonable notice (in relation to any other ad-hoc Board meeting) is given to all directors and they can include matters for discussion in the agenda. An agenda and accompanying Board papers are sent to all directors at least three days before the intended date of a Board meeting. Every Board member is entitled to have access to Board papers and related materials and access to the advice and services of the company secretary. They can also seek independent professional advice in appropriate circumstances, at the Company's expense. If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical Board meeting. The minutes books are kept by the company secretary. Draft and final versions of minutes of the Board meetings were sent to all directors for their comments and records respectively within a reasonable time after the meetings. During the year under review, nine Board meetings were held. In addition to the Board meetings, the Board also dealt with matters once by way of circulation and signing of written resolutions during the year under review. The meeting attendance of each Board member is set out in the section headed "Board, Committees and General Meetings" below.

CHAIRMAN

The chairman is responsible for providing leadership to the Board and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at the Board meetings. He should take the primary responsibility for ensuring that good corporate governance practices and procedures are established and appropriate steps are taken to provide effective shareholders' communication with the Board. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the non-executive directors. On 7 December 2017, Mr. CHIH Yu Yang (who has become the Company's acting chairman with effect from 1 January 2017) held a meeting with the non-executive directors (including the independent non-executive directors) without the presence of the other executive directors.

NON-EXECUTIVE DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors, namely Dr. LUO Zhongsheng, Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih, for a term of three years commencing from 31 March 2017, 1 December 2016, 24 July 2016 and 9 March 2017 respectively subject to re-election at each annual general meeting of the Company in accordance with the Articles.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year under review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received written annual confirmation of independence from the three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih in accordance with Rule 3.13 of the Listing Rules.

Mr. LAU Siu Ki and Dr. Daniel Joseph MEHAN have served the Board for more than nine years, and subject to retirement and re-election under the Articles as mentioned above, the current appointment terms of Mr. Lau and Dr. Mehan with the Company as independent non-executive directors will end on 30 November 2019 and 23 July 2019 respectively. On the basis of their respective professional background, skills and experience as well as their diversity of perspectives appropriate to the requirements of the Company's business, Mr. Lau and Dr. Mehan have accumulated in-depth understanding of the Group's business operations and affairs, and have been giving independent guidance, views and comments to the Company over the past years. For the year ended 31 December 2017, Mr. Lau and Dr. Mehan have provided their respective written annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. They have also confirmed no relationship with any directors, senior management members, or substantial or controlling shareholders of the Company. Each of Mr. Lau and Dr. Mehan has not held any management role or position within the Group, and has not been involved in the daily operations and management of the Group during the years that he has been a director, and has clearly demonstrated to the Company his willingness to exercise independent judgement and to provide objective views to the Company.

In this respect, the nomination committee of the Board re-assessed the independence of all the independent non-executive directors including Mr. Lau and Dr. Mehan in respect of the year ended 31 December 2017, and was satisfied (among other things) that each of Mr. Lau and Dr. Mehan was and would be independent in accordance with Rule 3.13 of the Listing Rules, and hence recommended to the Board for the above re-election to be proposed for approval of the Company's shareholders at the Company's forthcoming annual general meeting. On the basis of the recommendation from the nomination committee, the Board (after taking into account the above factors) is not aware of any evidence that the length of tenure of Mr. Lau and Dr. Mehan has had any adverse impact on their independence, nor any circumstance that might influence Mr. Lau and Dr. Mehan in effectively exercising their judgement independently, in either case in their capacity as independent non-executive directors. Accordingly, the Board has concluded that Mr. Lau and Dr. Mehan have remained and would continue to remain independent in the context of the Listing Rules, and has therefore recommended each of Mr. Lau and Dr. Mehan to be re-elected as independent non-executive directors at the Company's forthcoming annual general meeting.

COMPANY SECRETARY

Mr. LAW Sai Hay has resigned as the company secretary of the Company, and Ms. Vanessa WONG Kin Yan has been appointed as the company secretary of the Company, in each case with effect from 29 June 2017.

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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

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

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

Name of director	Type(s) of continuous professional development activities
CHIH Yu Yang	A, B
WANG Chien Ho	A, B
HUANG Chin Hsien (appointed on 31 March 2017)	A, B
YU Mingjen (appointed on 8 December 2017)	A, B
LUO Zhongsheng (appointed on 31 March 2017)	A, B
LAU Siu Ki	A, B
Daniel Joseph MEHAN	A, B
CHEN Fung Ming (retired on 25 May 2017)	A, B
TAO Yun Chih (appointed on 9 March 2017)	A, B

A: Attending briefing(s) and/or training session(s)
B: Reading articles, journals, newspapers and/or other materials

AUDIT COMMITTEE

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

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

LAU Siu Ki *(chairman)*
Daniel Joseph MEHAN
TAO Yun Chih (appointed on 25 May 2017 in place of CHEN Fung Ming who retired on 25 May 2017)

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

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

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

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

REMUNERATION COMMITTEE

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

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

LAU Siu Ki *(chairman)*
Daniel Joseph MEHAN
TAO Yun Chih (appointed on 25 May 2017 in place of CHEN Fung Ming who retired on 25 May 2017)

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

The remuneration committee shall meet at least once a year if necessary. During the year under review, three remuneration committee meetings were held, in particular, to review the 2017 share grant proposal under the Existing Share Scheme, the annual expenses allowances to executive directors, the remuneration of the directors including the remuneration of four new directors and the respective terms of their letters of appointment as well as to make recommendations to the Board on the relevant matters. In addition to the committee meetings, the remuneration committee also dealt with matters once by way of circulation and signing of written resolutions during the year under review. The meeting attendance of each member of the remuneration committee is set out in the section headed "Board, Committees and General Meetings" below.

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

Details of the remuneration payable to the directors and senior management of the Company are set out in notes 8 and 9 to the consolidated financial statements and "Report of the Directors" above, respectively.

NOMINATION COMMITTEE

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

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

LAU Siu Ki *(chairman)*
Daniel Joseph MEHAN
TAO Yun Chih (appointed on 25 May 2017 in place of CHEN Fung Ming who retired on 25 May 2017)

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

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

The nomination committee shall meet at least once a year if necessary. During the year under review, three nomination committee meetings were held, in particular, to consider the re-election of two directors, the retirement of one director as well as the appointment of four new directors, to review the structure, size and composition of the Board as well as to make recommendations to the Board on the relevant matters. In addition to the committee meetings, the nomination committee also dealt with matters once by way of circulation and signing of written resolutions during the year under review. The meeting attendance of each member of the nomination committee is set out in the section headed "Board, Committees and General Meetings" below.

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

CORPORATE GOVERNANCE COMMITTEE

The Company has established and maintained a corporate governance committee with written terms of reference by reference to the code provisions of the CG Code.

The corporate governance committee now consists of two executive directors. The members are:

CHIH Yu Yang *(chairman)*
YU Mingjen (appointed on 8 December 2017 in place of WANG Chien Ho who resigned on 8 December 2017)

The principal duties of the corporate governance committee are to develop and review the Company's policies and practices on corporate governance and to make recommendations to the Board. It also reviews and monitors the training and continuous professional development of the directors and senior management. In addition, it reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements. Moreover, it develops, reviews and monitors the code of conduct and compliance manual applicable to employees and the directors, and to review the Company's compliance with the CG Code.

The corporate governance committee shall meet at least once a year if necessary. During the year under review, one corporate governance committee meeting was held to review and recommend to the Board the revised list of matters reserved for the Board and the existing shareholders communication policy. The meeting attendance of each member of the corporate governance committee is set out in the section headed "Board, Committees and General Meetings" below.

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

INDEPENDENT BOARD COMMITTEE

During the year under review, pursuant to the resolutions passed at the Board meetings held on 13 April 2017 and 11 August 2017, respectively, two independent Board committees each comprising the independent non-executive directors of the Company at the respective times were established to consider (among other things) the proposed revision of the respective annual caps for the Product Sales Transaction and the Purchase Transaction, together with the relevant proposed annual caps for the three years ending 31 December 2019 as more particularly described in "Report of the Directors" above. The meeting attendance of each member of the independent Board committee is set out in the section headed "Board, Committees and General Meetings" below.

BOARD, COMMITTEES AND GENERAL MEETINGS

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

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

Notes:

1. Mr. HUANG Chin Hsien was appointed as an executive director of the Company with effect from 31 March 2017.
2. Mr. YU Mingjen was appointed as an executive director of the Company with effect from 8 December 2017.
3. Dr. LUO Zhongsheng was appointed as an executive director of the Company with effect from 31 March 2017 and re-designated as a non-executive director of the Company with effect from 1 September 2017.
4. Mr. TAO Yun Chih was appointed as an independent non-executive director of the Company with effect from 9 March 2017 and as a member of the audit committee, the remuneration committee and the nomination committee of the Company with effect from 25 May 2017.
5. Mr. CHEN Fung Ming retired as an independent non-executive director of the Company with effect from 25 May 2017.
6. The directors participated in the annual general meeting held on 25 May 2017 ("2017 AGM") by means of telephone conference facility, except that Mr. CHIH Yu Yang, Mr. HUANG Chin Hsien and Mr. TAO Yun Chih attended the 2017 AGM in person.
7. The directors participated in the extraordinary general meeting held on 25 May 2017 ("1st 2017 EGM") by means of telephone conference facility, except that Mr. CHIH Yu Yang, Mr. HUANG Chin Hsien and Mr. TAO Yun Chih attended the 1st 2017 EGM in person.
8. The directors participated in the extraordinary general meeting held on 21 September 2017 ("2nd 2017 EGM") by means of telephone conference facility, except that (a) Mr. WANG Chien Ho was unable to attend the 2nd 2017 EGM due to an urgent commitment and tight travel schedule; and (b) Mr. HUANG Chin Hsien, Mr. LAU Siu Ki and Mr. TAO Yun Chih attended the 2nd 2017 EGM in person.

AUDITOR'S REMUNERATION

The responsibility of the auditor is to form an independent opinion, based on its audit, on those consolidated financial statements and to report its opinion solely to the Company, as a body, and for no other purpose.

During the year under review, the auditor's remuneration incurred by the Company was US$1,064,000, and US$1,415,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services and US$50,000 for non-audit services. The Company considers the non-audit services to be insignificant and has therefore not provided itemised details regarding the nature of each non-audit service and the fee paid therefor.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Group and ensuring that the consolidated financial statements are in accordance with applicable statutory requirements and accounting standards.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the preparation of the Group's consolidated financial statements and the Company's financial statements for each financial period, which give a true and fair view of the financial position and operating results of the Group or the Company (as the case may be) for such financial period. In preparing the financial statements for the year ended 31 December 2017, the directors have selected suitable accounting policies and have applied them in a consistent manner, have made reasonable judgements and estimates, and have prepared the financial statements on a going-concern basis.

The Board has overall responsibility for the Group's system of internal control and enterprise risk management and reviewing its effectiveness, and in particular, evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's business and strategic objectives, ensuring that an appropriate and effective system of internal controls and enterprise risk management is established and maintained within the Group.

In particular, the Board oversees the Group's management (comprising, in the context of the Group's enterprise risk management and internal controls, the Company's chairman, chief executive officer and chief financial officer, and the Group's business head of the Group's major factories and site head of the United States, who collectively as a body is primarily responsible for the Group's overall policies on enterprise risk management and internal controls (the "Management") in the design, implementation and monitoring of the internal control and enterprise risk management system on an ongoing basis, so that the business and strategic objectives of the Group can be achieved and risks associated can be identified, analysed, managed and mitigated (but not eliminated) at an acceptable level, to provide reasonable (but not absolute) assurance against material misstatement or loss and also assurance on the effectiveness and adequacy of operations, reliability of financial reporting, safeguarding of assets and compliance with applicable laws and regulations.

The Board regularly reviews the design and operational adequacy and continuing effectiveness of the internal control and enterprise risk management system through the audit committee.

The Board (through its audit committee) oversees and evaluates the Group's internal control and enterprise risk management system on an ongoing basis. The audit committee, in discharging the Board's responsibility of overseeing and evaluating the effectiveness and adequacy of the Group's system of internal controls and enterprise risk management as delegated by the Board, reviews the Group's internal audit function. Pursuant to a risk-based approach, the Group's internal audit function independently reviews the risks associated with and internal controls of the Group over various operations and activities, and evaluates their adequacy, effectiveness and compliance. The Group's internal audit function has unrestricted access to all information, books, people and physical properties, thereby allowing it to review all aspects of the internal controls, enterprise risk management and governance processes within the Group. This includes audits of financial and operational controls of all legal entities and functional units as well as all other material controls (including financial, operational and compliance controls). The audit committee reviews and approves the internal audit plan which is prepared by the Group's internal audit function every year based on an assessment of the risk in each operating and functional unit as well as its materiality in a Group context. Audit findings and recommendations are communicated to the Management after each internal audit. The Management is responsible for evaluating such audit findings and recommendations and then implementing the appropriate ones and rectifying the deficiencies with corrective actions, and the progress on such implementation and rectification is followed up by the Group's internal audit function on a regular basis and monitored by the Management. Escalation to the senior management or even the executive directors for material deficiencies will be made, so that corrective actions can be taken in a timely manner. A summary of major findings is reported semi-annually to the executive directors and the audit committee. Being a learning organisation, lessons learned and best practices are disseminated and promoted within the Group.

During its annual review, the audit committee also considers, in particular, (a) the adequacy of resources, qualifications and experiences of the Group's staff performing accounting, internal audit and financial reporting functions and their training programs and budget; (b) the changes, since the last review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment; (c) the scope and quality of the Management's ongoing monitoring of risks and of the internal control and enterprise risk management system, and the work of the Group's internal audit function; (d) the extent and frequency of communication of monitoring results to the audit committee which enables it to assess control of the Group and the effectiveness of risk management; (e) significant control failings or weaknesses that have been identified during the period under review and also the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and (f) the effectiveness of the Group's processes for financial reporting and compliance with the Listing Rules.

The code of conduct guiding individual behaviour within the Group is made available to employees by way of rules and principles. To supplement the above, the Group has established its whistle-blowing policy and the related procedures which apply to all members of staff and suppliers. Complaints can be raised in relation to fraudulent acts, unethical acts or improper business conduct through established channels. Whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice. All complaints will be handled fairly and professionally by the Group's chief internal auditor for further investigation and appropriate follow-up actions.

Risk management is a central part of the Group's strategic management, and is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives. Existing and emerging risks are identified, analysed and managed via the enterprise risk management system. The system is operated and monitored by the Group's enterprise risk management team (the "ERM Team") which consists of the Company's heads of human resources, supply chain services, manufacturing and corporate engineering and product liability as well as leaders from quality and reliability, finance, legal, information technology, environment and health and safety departments, collectively as a body representing key functions of the Group for monitoring and execution of the enterprise risk management process. Risk assessment reports will be reported to the ERM Team on a regular basis which then reviews the risk assessment reports to ensure the adequacy of action plans and appropriate business process or control systems to manage these risks. The ERM Team will consolidate the assessment results in a Group-level risk assessment report and then report to the Company's chief financial officer, who will represent the Management and report the operational adequacy and continuing effectiveness of the internal control and enterprise risk management system to the audit committee.

The principal risks that are covered by the enterprise risk management system are strategic planning, technical, budgetary control, performance measurement, control over capital expenditure, investment, finance, quality, product safety and liability, legal, information technology and security, supply chain management, natural disaster, human resources management, customer credit risk and relationship, and industrial safety.

The Group also adopts internal control procedures to ensure that the continuing connected transactions of the Group have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms (or better) and according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole. The accounting department of the Company is primarily responsible to review and monitor the continuing connected transactions ensuring that the annual caps of the relevant continuing connected transactions are not exceeded and the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The accounting department of the Company will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and annually report to the chief financial officer of the Company, who in his own capacity and on behalf of the Management will report to the audit committee and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the Listing Rules have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly. For details, please refer to the "Internal Control" section of the Company's announcement on continuing connected transactions dated 8 March 2018.

The Company's chief financial officer in his own capacity and on behalf of the Management, after reviewing and discussing with the Group's internal audit function the Group's internal control and enterprise risk management system as well as the related reports and disclosures made by the Group's internal audit function for the year ended 31 December 2017, has provided a confirmation to the audit committee on the effectiveness of the system.

Based on the results of evaluations and representations for the year ended 31 December 2017 made by the Company's chief financial officer in his own capacity and on behalf of the Management and the Group's internal audit function respectively, the audit committee is satisfied with the effectiveness of the Group's internal audit function and that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives, and an effective and adequate system of internal controls and enterprise risk management has been in place throughout the year ended 31 December 2017 to safeguard the interests of shareholders, customers, creditors and employees.

The procedures for the handling and dissemination of inside information and handling enquiries from the Stock Exchange (forming part of the Manual) set out the detailed internal control, reporting and authorisation procedures in connection with:

(a) the handling and dissemination of inside information in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO, where recipients of potential inside information (subject to applicable confidentiality obligations and dealing restrictions) will notify the leader of a core team designated by the Board for assessment and (as appropriate) reporting to the chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess any disclosure need in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO in respect of the potential inside information.

(b) the handling of enquiries from the Stock Exchange, who may make enquiries with the Company (primarily its company secretary) on unusual movements in the price or trading volume of the Company's shares under Rule 13.10 of the Listing Rules or media news, and such enquiries will be handled through the designated core team and (as appropriate) the chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess proper disclosure.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the year ended 31 December 2017.

SHAREHOLDER RELATIONS

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

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

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

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

- For enquiries about their shareholdings in the Company, the shareholders can direct the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or by email to hkinfo@computershare.com.hk, who has been appointed by the Company to handle the shareholders' share registration and related matters.

- For the verification of his/her capacity as a shareholder, the shareholder making the enquiry, request, comment or suggestion shall forthwith upon the Company's request provide: (a) his/her name, address and other contact details; (b) the number of the Company's shares held by him/her; (c) his/her written consent to the use, transfer and/or processing of his/her personal data and other information provided to the Company for the purpose of verifying his/her capacity as a shareholder; and (d) such additional information as the Company may reasonably require for the purposes of such verification. The verification process will be conducted by the Company, in consultation with the Company's Hong Kong branch share registrar and other third parties if necessary, to the satisfaction of the Company. The Company will proceed to handle the relevant enquiry, request, comment or suggestion following a successful verification to its satisfaction.

- Following a successful verification of the shareholder's capacity, the company secretary or the handling officer of the Company's investor relations department (as the case may be) will review the relevant enquiry, request, comment or suggestion and (as appropriate) forward the same: (a) to the Board (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within the Board's purview; (b) to the members of the relevant Board committee (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within such Board committee's area of responsibility; and (c) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

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

During the year under review, the 2017 AGM and the 1st 2017 EGM were held on 25 May 2017, whereas the 2nd 2017 EGM was held on 21 September 2017. The meeting attendance of each director is set out in the section headed "Board, Committees and General Meetings" above.

At the 2017 AGM, the Company obtained its shareholders' approval of the agenda items set forth in the 2017 AGM notice attached to the Company's circular dated 13 April 2017.

SHAREHOLDERS' RIGHTS

Shareholders' Right to convene Extraordinary General Meeting

The Company has formulated and maintained the memorandum on shareholder rights setting out (among other things) its shareholders' right to convene the Company's extraordinary general meeting ("EGM") as follows:

- Pursuant to article 68 of the Articles, the relevant shareholder(s) of the Company is/are entitled to convene an EGM in the following manner:

  (a) Upon the written requisition of any two or more shareholders deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company; or

(b) Upon the written requisition of any one shareholder who is a recognised clearing house (as defined in the Articles) or its nominee(s) deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

- If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the requisitionist(s) himself/themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM in the same manner, as nearly as possible, as that in which EGMs may be convened by the Board, provided that any EGM so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for Shareholders' Enquiries

The Company has formulated and maintained the shareholders communication policy setting out (among other things) the procedures by which enquiries may be put to the Board as more particularly described above.

Shareholders' Right to put forward Proposals at General Meetings

The Company has formulated and maintained the procedures for shareholders to propose candidates for election as a director of the Company, which is accessible on the website of the Company. In relation to other proposals which may be put forward at the Company's general meetings, the Company has formulated and maintained the memorandum on shareholder rights which provides for (among other things) the following:

- In the absence of any general mechanism for the shareholders to put forward other proposals at the Company's general meetings under the Cayman Islands Companies Law, the shareholder(s) can submit a written requisition to move a proper resolution at a general meeting of the Company if such shareholder(s): (a) individually or collectively represent(s) not less than one-fortieth of the total voting rights of all the shareholders having as at the date of the requisition a right to vote at the Company's general meetings; or (b) are no less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000 (or its foreign equivalent).

- The written requisition shall (a) state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the relevant general meeting; (b) contain the signature(s) of all the requisitionist(s), which may be contained in one document or in several documents in like form; (c) be deposited with the company secretary at the following address not less than 6 weeks before the relevant general meeting (in the case of a requisition requiring notice of a resolution) or not less than 1 week before such general meeting (in the case of any other requisition); and (d) be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionist(s) to all the shareholders in accordance with the requirements under applicable laws and regulations:

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