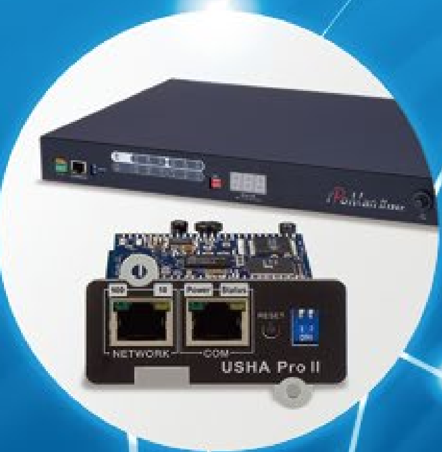
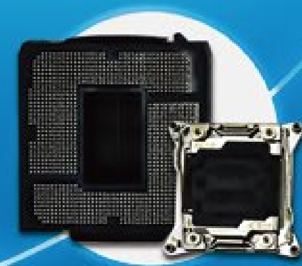
FIT Hon Teng Limited

鴻騰六零八八精密科技股份有限公司

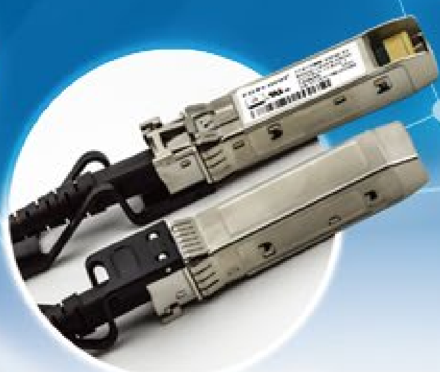
(Incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as FIT Hon Teng Limited)

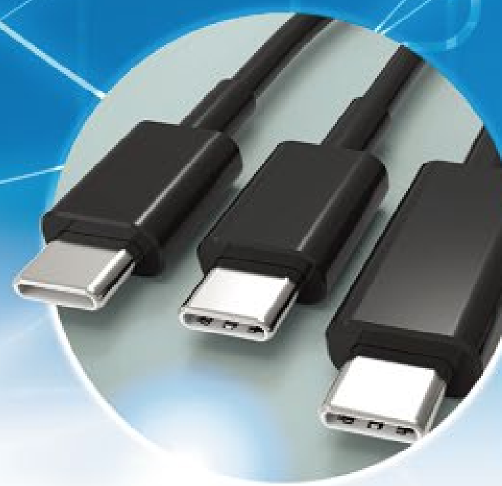
Stock Code: 6088





2017
Annual Report





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The English text of this Annual Report shall prevail over the Chinese text in case of any inconsistency.

Corporate Information

LEGAL NAME OF THE COMPANY

FIT Hon Teng Limited (incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as FIT Hon Teng Limited)

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited

Stock code: 6088

DIRECTORS

Executive Directors

LU Sung-Ching (盧松青)

LU Pochin Christopher (盧伯卿)

GILLESPIE William Ralph

Non-executive Director

CHEN Ga-Lane (陳杰良)

Independent non-executive Directors

CURWEN Peter D

TANG Kwai Chang (鄧貴彰)

CHAN Wing Yuen Hubert (陳永源)

JOINT COMPANY SECRETARIES

YANG Tsung-Han (楊宗翰)

NG Sau Mei (伍秀薇) *(ACIS, ACS)*

AUDIT COMMITTEE

TANG Kwai Chang (鄧貴彰) *(Chairman)*

CURWEN Peter D

CHAN Wing Yuen Hubert (陳永源)

REMUNERATION COMMITTEE

CURWEN Peter D *(Chairman)*

CHEN Ga-Lane (陳杰良)

TANG Kwai Chang (鄧貴彰)

NOMINATION COMMITTEE

CHAN Wing Yuen Hubert (陳永源) *(Chairman)*

LU Sung-Ching (盧松青)

CURWEN Peter D

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

LEGAL ADVISOR

Sullivan & Cromwell (Hong Kong) LLP

PRINCIPAL BANKS

Citibank, Taiwan Limited

Bank of America, Taipei Branch

AUTHORIZED REPRESENTATIVES

LU Pochin Christopher (盧伯卿)

NG Sau Mei (伍秀薇)

SHARE REGISTRAR AND TRANSFER OFFICE

Principal

Conyers Trust Company (Cayman) Limited

Cricket Square

Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111

Cayman Islands

Hong Kong

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17th Floor, Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111,
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND ADDRESS OF HEADQUARTERS

66-1, Chungshan Road
Tucheng District, New Taipei City 23680
Taiwan

PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two, Times Square
1 Matheson Street, Causeway Bay
Hong Kong

WEBSITE

http://www.fit-foxconn.com

Financial Highlights

	Year ended December 31,			
	2017	2016	2015	2014
	USD'000	USD'000	USD'000	USD'000
	Audited	Audited	Audited	Audited
Key income statement items				
Revenue	**3,398,803**	2,880,260	2,327,902	2,482,214
Gross profit	**569,444**	490,410	435,240	477,559
Operating profit	**219,826**	209,954	209,222	230,080
Profit attributable to owners of the Company	**180,490**	168,562	177,009	187,025

	Year ended December 31,			
	2017	2016	2015	2014
	USD'000	USD'000	USD'000	USD'000
	Audited	Audited	Audited	Audited
Key balance sheet items				
Current assets	**2,412,019**	1,843,319	1,531,175	1,704,452
Total assets	**3,180,634**	2,614,699	2,266,396	2,505,367
Total equity	**1,893,903**	1,283,984	1,186,557	1,053,913
Current liabilities	**1,276,874**	1,329,368	1,077,260	1,448,022
Total liabilities	**1,286,731**	1,330,715	1,079,839	1,451,454

	Year ended December 31,			
	2017	2016	2015	2014
Key financial ratios				
Gross profit margin	**16.8%**	17.0%	18.7%	19.2%
Operating profit margin	**6.5%**	7.3%	9.0%	9.3%
Margin of profit attributable to owners of the Company	**5.3%**	5.9%	7.6%	7.5%

	Year ended December 31,			
	2017	2016	2015	2014
Key operating ratios				
Average inventory turnover days[1]	**58**	47	47	44
Average trade receivables turnover days[2]	**97**	90	106	87
Average trade payables turnover days[1]	**74**	70	71	85

(1) Average inventory and trade payables turnover days are based on the average balance of such item divided by cost of sales for the year and multiplied by the number of days in the year. Average balance is calculated as the average of the beginning balance and ending balance of the year. The number of days for a year is 365 days.

(2) Average trade receivables turnover days are based on the average balance of trade receivables, which include trade receivables due from third parties and trade receivables from related parties, divided by revenue for the year and multiplied by the number of days in the year. Average balance is calculated as the average of the beginning balance and ending balance of the year. The number of days for a year is 365 days.

Chairman's Statement

To shareholders,

On behalf of the Board, I am pleased to announce that our Group's results have maintained a satisfactory growth despite fierce competition in the global market. We have implemented a shareholder-oriented corporate strategy and prudent financial management policies in allocating and utilizing funds. We will further enhance our competitiveness through ongoing investments in research and development of high-end technologies as well as strategic mergers and acquisitions. Looking ahead, we will leverage on our inherent technical competitiveness as well as our strategies and vision at the business level to continuously deliver outstanding achievements and create long-term value for our shareholders.

DEVELOPMENT STRATEGIES

With technological advancements over time, not only have we witnessed outstanding performance of our Group in the interconnect solutions industry, but we have also been committed to promoting our business transformation and expansion, and investing more in research and development of future technologies. Our determination to keep abreast of the times and excel in our technologies are evidenced in various facets: the evolution from copper conductors to high-speed optical-fiber cables, from wired transmission to wireless connectivity and from components to peripheral accessories, just to name a few. In the future, we will be more focused on other sectors, such as automotive electronics, Internet of Things and intelligent accessories.

REVIEW OF 2017 RESULTS

Apart from the growth of interconnect solutions for computers and mobile communications businesses, the accessories and optical communications businesses also served as key drivers for our growth in 2017. Leveraging on our advanced technologies, excellent insights and unyielding entrepreneurial spirit, we have changed the status quo of the industry and secured a considerable market share in the accessories and optical communications markets. In addition, we have also maintained our leading position in the development of high-end optical communications products, thereby becoming the pioneer in this field. Furthermore, we were selected as a constituent of Hang Seng Composite LargeCap & MidCap Index on November 13, 2017, marking an important milestone for our Company.

FUTURE PROSPECTS

With the continuous development of technologies, the era has arrived in which everything becomes interconnected, enormous and useful data has emerged, the demand for high-speed transmission has surged and accessories for personal terminal devices have diversified. We will leverage on our accurate insights and cutting-edge technologies to make continuous progress in a myriad of emerging industries, such as data centers, 8K + 5G, Internet of Vehicles, Internet of Things and mobile accessories markets. In addition to the formation of a joint venture company with Sharp in early 2018, we have also cooperated with top experts and forerunners in the global market to introduce artificial intelligence to transform our Company into one that is technologically sophisticated and infused with the genes of artificial intelligence.

DIVIDENDS

With our leading industrial position and strong competitiveness, the Company has continued to generate cash flows. The Board proposed to declare a final dividend of HK$0.055 per Share, representing a dividend payout ratio of approximately 25%.

Upon approval by our shareholders at the forthcoming annual general meeting to be convened on June 22, 2018, the final dividends for the year ended December 31, 2017 will be distributed to the shareholders whose names appear on the register of shareholders of the Company on July 10, 2018 and paid on or around July 20, 2018.

APPRECIATION

Last but not least, I would like take this opportunity to express my heartfelt gratitude to the Board, the management team and all of our staff for their efforts and contribution to our Company and for laying a solid foundation for our future development. We also sincerely thank all our shareholders, partners and related parties for their loyal support and trust. We value, and hope that we will continue to have, your unceasing trust and support, and hope that we will stand together to face new challenges.

LU Sung-Ching (盧松青)
Chairman

Management Discussion and Analysis

BUSINESS OVERVIEW AND OUTLOOK

Business Overview

For the year ended December 31, 2017, we continued to implement our business strategy to solidify our position as a global leader in the development and production of interconnect solutions and related products. With these efforts, we experienced significant growth in our business. Our revenue amounted to US$3,399 million, representing a 18.0% growth, and our profit amounted to US$180 million, representing a 6.5% growth, each compared to the year ended December 31, 2016. As discussed in more details in the "Results of Operations" section below, our sales in all end markets recorded a rapid growth, thanks to our strategic focus based on correct anticipation of industry trends. Despite an increase in operating costs caused by an increase in labor costs and an appreciation of Renminbi in 2017, we have fundamentally maintained our gross profit margin, with only a slight decrease compared to 2016, and recorded a significant growth in both operating profit and net profit, thanks to our growth in sales as well as prudent cost controls.

The mobile and wireless devices continued to be our largest revenue contributor by end market. For the year ended December 31, 2017, we witnessed increasing sales of interconnect solutions utilized in the new smartphone products released by a brand company customer as well as in the earphones associated with such smartphone products. This also drove the increase in sales of products associated with earphones, such as lightning plugs, cables and connectors. As a result, our revenue from the mobile and wireless devices end market increased by 28.4% for the year ended December 31, 2017 compared to the same period in 2016.

Further to our acquisition of Avago's optical modules business at the end of 2015, we have continued to strengthen our optical modules offerings to capture business opportunities in the communications infrastructure end markets. In particular, our optical modules business experienced a growth, thanks to the successful integration and continuing growth of the optical modules business we acquired from Avago. Moreover, we saw more customers of optical modules business began placing orders to us since 2017, which also benefited our growth in this sector. As a result, our revenue from the communications infrastructure end market increased by 18.8% for the year ended December 31, 2017 compared to the same period in 2016.

The computer and consumer electronics end market continued to be a pillar of our revenue contributor, and we solidified our leading position in this end market by focusing on high end products and products of our key brand companies. Despite the lower growth prospect of this end market in general and more intense price competition from competitors, we have expanded our market share in the area of game consoles, causing revenue from the computer and consumer electronics end market to increase by 1.4% for the year ended December 31, 2017 compared to the same period in 2016.

We continued to strategically pursue opportunities in automotive and other emerging applications for our interconnect solutions and other products. As such, we enhanced our research and development efforts in this field, in particular automotive applications. We have also been in constant discussions with potential partners, including our connected persons, as to investment and collaboration in the development of interconnect solutions and other products that can be utilized in a wide variety of applications in the automotive industry. As a result of these efforts, our revenue from the automotive, industrial and medical end market increased by 45.2% for the year ended December 31, 2017 compared to the same period in 2016.

INDUSTRY OUTLOOK AND BUSINESS PROSPECTS

Industry Outlook

The global connector industry is undergoing rapid technical development with better product functionality and higher compatibility, which enables connector products to be applied in more situations and scenarios. In the future, connectors that are compatible with various kinds of products across application fields are likely to become more popular in the market. In such an environment, we believe advance market players including us and first movers are more likely to seize emerging market opportunities as well as to build awareness globally, leading to a fast expansion of market share. With that in mind, we have witnessed a varied development trend for different end markets for connectors, and we believe such varied trends will continue in the near future. As such, we have been reviewing and focusing on the trends of different end markets and we adjust our strategic focuses from time to time.

Mobile and wireless devices. Demand for mobile and wireless devices continues to expand around the world. In particular, the proliferation of mobile phones generally, and smartphones in particular, drives demand for various accessory products such as chargers, batteries, earphones, headsets and power banks. For example, USB Type-C is a new trend in the connector market that has various characteristics that may make it future-proof in this end market. Also, due to product upgrades, the global mobile phone accessory market size has been growing at lower double digits in recent years, and is expected to continue to grow at a relatively high rate in the next few years.

Communications infrastructure. Demand for communications infrastructure connectors is largely driven by the accelerating growth in data traffic and continually growing need for additional network bandwidth. As traffic increases, more data centers capacity is being built. Data centers require a variety of physical connectors, routers, electricity, signals and networks, which generate heavy demand for connectors. Increasing deployment of data centers helps ensure continued strong demand for connectors. In addition, cloud computing has emerged as a major growth driver in the data center industry. Cloud computing requires a variety of physical sensor connectors, routers, electricity, signals and networks, which generates heavy demand for sensor connectors and creates market potential for innovative connectors. Moreover, recent technology trends of server upgrades and high performance computing, which is the use of parallel processing for running advanced programs in a short lapse of time, will likely lead to continued prosperity in the optical transceiver market in the near future. The wide adoption of optical transceivers in the communications infrastructure end market is attributed to its advantages of low signal attenuation, high speed and noise immunity.

Computer and consumer electronics. The steady need for various connectors in the computer and consumer electronics end market has laid a solid foundation for demand for connectors, contributing to the steady growth of connector market in the past and also underlying potential for future growth. Because the global connector industry is undergoing a rapid technical development with better product functionality and higher compatibility, connector products are applied in more situations and scenarios, which drives the demand for connectors in this end market. For example, USB Type-C connector has been extensively applied not only to computers but also to a wide range of electronic products including televisions and displays. However, overall, computer and consumer electronics end market is expected to grow at a relatively low speed compared to our other main end markets.

Automotive. We expect that the demand for connectors applied in the automotive end market would be driven by, among others, connectors applied in autonomous driving, increasing demand for vehicles and increasing popularity of in-vehicle infotainment.

Business Prospects

We anticipate the overall connector industry, particularly the end markets we strategically focus on, will continue to grow in 2018. We plan to continue our strategic focus on the mobile and wireless devices, communications infrastructures, and automotive, industrial and medical end markets, and expect that our development in these end markets will be the main driver of our growth in 2018. On the production side, we continue to further improve our production efficiency and flexibility through automation and other means. We also expect the production efficiency for mobile earphone and associated products will further improve as we further optimize the production process and enhance the quality of those products, which will contribute to our gross profit margin. In particular:

- *Mobile and wireless devices.* We expect our sales will continue to grow, thanks to the strong demand for earphones and associated products, as well as new products to be rolled out by our key brand customers. We also plan to further penetrate Chinese brand companies.

- *Communications infrastructure.* We anticipate a growth compared to 2017, as we expect the demand for certain types of optical transceivers, fiber channels and CXP to be strong. In particular, as the higher speed optical products are expected to grow faster than lower speed optical products, the change of sales mix would contribute to both our revenue and overall margin.

- *Computer and consumer electronics.* The industry growth is expected to continue to be slow. Therefore, we will focus on profitability than growth.

- *Automotive, industrial and medical.* We believe the demand from our key customers in this end market will continue to be strong, and we expect to benefit from industry trend. We will continue to strategically pursue opportunities in emerging application for our interconnect solutions and other products, especially in the smart home industry and automotive industry. We believe with our leading position in the development and production of interconnect solutions, we would be able to tap on the burgeoning demand for electronic vehicles. We also plan to increase our investments in developing in-car electronic systems and key autonomous driving components. For example, on February 7, 2018, we entered into an agreement with Sharp to form a joint venture company to explore opportunities in the development, design, manufacturing, distribution and marketing for automotive cameras and electronic mirrors. We believe this will create greater synergy between us and Sharp in terms of industrial expertise and geographical reach. Furthermore, our strategic partnership with Hon Hai Group puts us in a good position to capture the emerging opportunities in automotive electronics market.

Therefore, we are confident of our sales growth in 2018.

RESULTS OF OPERATIONS

Revenue

We derive our revenue mainly from the sale of our interconnect solutions and other products and, to a lesser extent, from the sale of mold parts and sample products and others. For the year ended December 31, 2017, our revenue amounted to US$3,399 million, representing a 18.0% increase from US$2,880 million in 2016. Among the four main end markets, our revenue from (1) the mobile and wireless devices end market increased by 28.4%, (2) the communications infrastructure end market increased by 18.8%, (3) the computer and consumer electronics end market increased by 1.4% and (4) the automotive, industry and medical end market increased by 45.2%. The following table sets forth our revenue by end markets in absolute amounts and as percentages of revenue for the years indicated:

	For the year ended December 31,			
	2017		2016	
	US$	**%**	US$	%
	(in thousands, except for percentages)			
Mobile and wireless devices	**1,589,554**	**46.8**	1,238,331	43.0
Communications infrastructure	**844,146**	**24.8**	710,756	24.7
Computer and consumer electronics	**818,544**	**24.1**	807,158	28.0
Automotive, industrial and medical	**63,962**	**1.9**	44,037	1.5
Others	**82,597**	**2.4**	79,978	2.8
Total	**3,398,803**	**100**	2,880,260	100

Mobile and wireless devices. The 28.4% increase in revenue from the mobile and wireless devices end market was primarily as a result of increased sales of interconnect solutions utilized in the new smartphone products released by a brand company customer, the earphones associated with such smartphone products, as well as the products associated with earphones, such as lightning plugs, cables and connectors.

Communications infrastructure. The 18.8% increase in revenue from the communications infrastructure end market was primarily as a result of the successful integration and continuing growth of the optical modules business we acquired from Avago, including our server, switch and optical transceiver products. The development of single-mode high-speed transceivers using advanced 100G (or even faster) optical transceiver technology was essential to our continued growth in this segment.

Computer and consumer electronics. The 1.4% increase in revenue from the computer and consumer electronics end market was primarily due to our ability to maintain our market share in the game consoles sector despite a slowdown of the overall end market and price competition from our competitors, as well as lower demand of certain products of our key customers.

Automotive, industry and medical. The 45.2% increase in revenue from the automotive, industry and medical end market was primarily because we began shipping certain new products to our key automotive customers since 2017.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by 18.4% from US$2,390 million in 2016 to US$2,829 million in 2017. Our cost of sales primarily includes raw materials, employee benefit expenses for our production personnel, depreciation of property, plant and equipment, subcontracting expenses primarily paid to our related parties, utilities, molding and consumable expenses and other costs associated with the production of our interconnect solutions and other products. For the year ended December 31, 2017, the increase was primarily driven by the expansion of our overall business scale and an increase in labor costs.

Our gross profit increased by 16.1% from US$490 million in 2016 to US$569 million in 2017, primarily due to the revenue increase. Our gross profit margin decreased from 17.0% in 2016 to 16.8% in 2017, primarily due to a change in revenue mix, with lower margin businesses, namely, the mobile and wireless segment, accounting for a higher percentage in 2017 compared to 2016.

Distribution Costs and Selling Expenses

Our distribution costs and selling expenses decreased by 4.6% from US$87 million in 2016 to US$83 million in 2017, primarily due to prudent cost controls, reduction in shipment costs, as well as a decrease in expenses in relation to bonus and other incentive payments to relevant employees. As a percentage of revenue, our distribution costs and selling expenses also decreased as a result of economies of scale as the headcounts of sales staff did not increase in proportion to the revenue increase.

Administrative Expenses

Our administrative expenses increased by 19.1% from US$68 million for the year ended December 31, 2016 to US$81 million in 2017, primarily due to an increment of bonus and incentives to the employees and incurrence of additional professional and regulatory expenses associated with the Listing.

Research and Development Expenses

Our research and development expenses primarily consist of (1) employee benefit expenses paid to our research and development personnel, (2) molding and consumables expenses relating to the moldings used in research and development, (3) depreciation of molds and molding equipment and (4) other costs and expenses in connection with our research and development activities. Our research and development expenses increased by 12.4% from US$169 million in 2016 to US$190 million in 2017, as we incurred significant research and development expenses associated with earphone, optical transceiver, batteries and other related products.

Operating Profit and Operating Profit Margin

As a result of the foregoing, our operating profit increased by 4.8% from US$210 million in 2016 to US$220 million in 2017, primarily due to an increase in our gross profit. Our operating profit margin decreased from 7.3% in 2016 to 6.5% in 2017.

Income Tax Expenses

We incur income tax expenses primarily relating to our operations in China, Taiwan and Singapore. Our income tax expenses increase from US$43 million in 2016 to US$44 million in 2017. Effective income tax rate decreased from 20.3% to 19.6%, primarily due to the enjoyment of tax incentives in certain jurisdictions.

Profit for the year

As a result of the increase in operating profit, profit for the year increased by 6.5% from US$169 million in 2016 to US$180 million in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity, Working Capital and Borrowings

We finance our operations primarily through cash generated from our operating activities and bank borrowings. As of December 31, 2017, we had cash and cash equivalents of US$768 million, compared to US$415 million as of December 31, 2016. In addition, as of December 31, 2017, we had short-term bank deposits of US$49 million, compared to US$112 million as of December 31, 2016.

In addition, we completed our IPO and, including the issue of the 148,509,000 Shares pursuant to the full exercise of the Over-allotment Option (as defined in the Prospectus), received proceeds of US$394 million. We will fund our operations partly using our IPO proceeds. See "Use of IPO Proceeds" below for details.

As of December 31, 2017, we had total bank borrowings of US$296 million, all of which were short-term borrowings, as compared to US$385 million as of December 31, 2016. We incur bank borrowings mainly for our working capital purpose and to supplement our capital needs in our foreign investment and acquisition activities if needed. The decrease in bank borrowings during the year ended December 31, 2017 was primarily due to repayments.

Our current ratio, calculated using current assets divided by current liabilities, was 1.89 times as of December 31, 2017, compared to 1.39 times as of December 31, 2016. Our quick ratio, calculated using current assets less inventories divided by current liabilities, was 1.48 times as of December 31, 2017, compared to 1.11 times as of December 31, 2016. The increase in our current ratio and quick ratio were primarily due to an increase in cash and bank balances.

Cash Flow

For the year ended December 31, 2017, our net cash generated from operating activities was US$156 million, net cash used in investing activities was US$52 million, and net cash generated from financing activities was US$215 million.

Capital Expenditures

Our capital expenditures primarily relate to the purchase of land use rights, property, plant and equipment and intangible assets (exclusive of goodwill). We finance our capital expenditures primarily through cash generated from our operating activities and bank borrowings. We also expect to fund part of our capital expenditures using our IPO proceeds. See "Use of IPO Proceeds" below for details.

For the year ended December 31, 2017, our capital expenditures amounted to US$119 million, as compared to US$198 million in 2016. The decrease in 2017 was primarily due to a decrease in capital expenditures for accessories products compared to 2016. The capital expenditures for the year ended December 31, 2017 were primarily used for upgrading, maintaining and converting production facilities, including converting certain production facilities for optical products, as well as upgrading environmental protection systems of certain factories in the PRC.

Significant Investments, Acquisitions and Disposals

Except as disclosed in the section headed “Our History and Development — Post-Track Record Period Acquisition” in the Prospectus, during the year ended December 31, 2017, we did not have any significant investments, material acquisitions or material disposals.

Inventories

Our inventories consist primarily of raw materials, work in progress and finished goods. We review our inventory levels on a regular basis to manage the risk of excessive inventories. Our average inventory turnover days for the year ended December 31, 2017 was 58 days as compared to 47 days for 2016. The higher inventory turnover days for the year ended December 31, 2017 was primarily associated with the launch timing of a smartphone product by a brand customer towards the end of 2017.

Our inventories increased from US$368 million as of December 31, 2016 to US$528 million as of December 31, 2017, primarily due to an expansion of our business scale in general, increased leveling production activities as a result of greater product demands due to, inter alia, the introduction of new smartphones from one of our largest brand customers, as well as the need to stock up inventories before the Chinese New Year holidays.

Provision for inventory impairment increased from US$14 million as of December 31, 2016 to US$22 million as of December 31, 2017, which is in line with the increase in the inventory balance during the year.

Trade Receivables

Our trade receivables are receivables from our third party and related party customers for the sale of our interconnect solutions and other products.

We typically grant to our third party and related party customers a credit period ranging from 30 days to 180 days. Our average trade receivables turnover days for the year ended December 31, 2017 increased to 97 days, as compared to 90 days for 2016. The increase was primarily associated with the launch timing of a smartphone product by a brand customer towards the end of 2017. Our average trade receivables turnover days for related parties for the year ended December 31, 2017 was 132 days as compared to 132 days for 2016.

Our trade receivables increased from US$804 million as of December 31, 2016 to US$993 million as of December 31, 2017, primarily due to higher sales volume.

Trade Payables

Our trade payables primarily relate to the procurement of raw materials, semi-finished goods and finished goods. Our average trade payables turnover days for the year ended December 31, 2017 was 74 days as compared to 70 days for 2016. The increase was primarily due to our longer payment period to certain related parties in our Vietnam supply chain.

Our trade payables increased from US$564 million as of December 31, 2016 to US$589 million as of December 31, 2017, primarily due to increased procurement as a result of increase of demand from customers in the second half of 2017.

Major Capital Commitments

As of December 31, 2017, we had capital commitments of US$9 million, which primarily related to the purchase of property, plant and equipment related to our production facilities.

Contingent Liabilities

As of December 31, 2017, we did not have any significant contingent liability, guarantee or any litigation against us that would have a material impact on our financial position or results of operations.

Gearing ratio

As of December 31, 2017, our gearing ratio, calculated as net debts (which are calculated as total borrowings less cash and cash equivalents) divided by total equity, was not applicable because we did not have the net debt position (as of December 31, 2016: not applicable).

USE OF IPO PROCEEDS

We completed our IPO and, including the issue of the 148,509,000 Shares pursuant to the full exercise of the Over-allotment Option (as defined in the Prospectus), received proceeds of US$394 million, which will be used in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

PLEDGE OF ASSETS

As of December 31, 2017, none of our assets had been pledged.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As of December 31, 2017, we had approximately 47,700 employees, as compared to approximately 47,500 employees as of December 31, 2016. Total employee benefit expenses including Directors’ remuneration for the year ended December 31, 2017 were US$567 million, as compared to US$433 million in 2016. Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice.

In addition to salaries and wages, other employee benefit expenses include cash bonus, pension, housing fund, medical insurance and other social insurances, as well as share-based payment expenses and others. We made certain share grants under our Share Grant Scheme prior to our IPO. We also adopted the Share Option Scheme to offer valuable incentive to attract and retain quality personnel. We have been evaluating, and may adopt, new share incentive schemes that comply with the requirements of the Listing Rules. The remuneration of the Directors is reviewed by the Remuneration Committee and approved by the Board. The relevant Director’s experience, duties and responsibilities, time commitment, the Company’s performance and the prevailing market conditions are taken into consideration in determining the emolument of the Directors.

FOREIGN EXCHANGE RISK

We operate in various locations and most of our sales, purchases or other transactions are denominated in U.S. dollars, New Taiwan dollars and Renminbi. Foreign exchange fluctuations may have a significant positive or negative effect on our results of operations. Majority of our Group's entities are exposed to foreign currency risks related to purchasing, selling, financing and investing in currencies other than the functional currencies in which we operate. As we enter into transactions denominated in currencies other than the functional currencies in which we or our subsidiaries operate, we face foreign currency transaction risk to the extent that the amounts and relative proportions of various currencies in which our costs and liabilities are denominated deviate from the amounts and relative proportions of the various currencies in which our sales and assets are denominated.

Our consolidated financial information is reported in U.S. dollar. Our PRC and other non-U.S. subsidiaries prepare financial statements in Renminbi or their respective local currencies as their functional currencies, which are then translated into U.S. dollar prior to being consolidated in our financial information. As a result, changes in the value of the U.S. dollar relative to the functional currencies of these subsidiaries create translation gains and losses in other comprehensive income or loss upon consolidation. In addition, as our PRC and other non-U.S. subsidiaries generally have significant U.S. dollar-denominated sales and accounts receivables, depreciation of the U.S. dollar would result in foreign exchange losses while appreciation of the U.S. dollar would result in foreign exchange gains.

To mitigate the foreign exchange risk, we have also adopted a prudent foreign exchange hedging policy. We have implemented internal procedures to monitor our hedging transactions which include limitations on transaction types and transaction value, formulation and review of hedging strategies in light of different market risks involved and other risk management measures. Under such policy, we enter into forward foreign exchange contracts for hedging purposes only but not for speculative purposes. As of December 31, 2017, the nominal principal amount of our forward foreign exchange contracts was RMB2,664 million.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LU Sung-Ching (盧松青) (also known as Sidney Lu), aged 59, was appointed as our executive Director on December 30, 2013. He is also the chairman and chief executive officer of our Company. Mr. Lu has extensive experience in the interconnect technology business and is primarily responsible for the overall management and operation, including formulating and leading the implementation of development strategies and business plans of our Group and overseeing the management and strategic development of our Group. Mr. Lu worked at General Motors Company between 1981 and 1988 in their Packard Electric Division in Ohio, carrying out load flow and dynamic analyses for connectors. Furthermore, he was involved in manufacturing work at TE Connectivity Ltd. (previously known as AMP Incorporated), a company engaged in the connector manufacturing business, between 1988 and 1990. Mr. Lu joined Hon Hai in January 1990 and held a number of positions, including manager, deputy general manager and general manager, during his more than two decades of experience developing its interconnect technology business. Prior to joining our Company in 2013, he was the general manager of our predecessor and continued to serve as chief executive officer post incorporation of our Company.

Mr. Lu obtained a bachelor's of liberal arts and science degree in mathematics and a bachelor's of science degree in mechanical engineering from the University of Illinois at Urbana-Champaign in the United States in 1981. In 2011, the University of Illinois at Urbana-Champaign's Department of Mechanical Science and Engineering awarded him a "Distinguished Alumni" honor to celebrate his extraordinary professional accomplishments, excellent leadership and generous philanthropic and professional commitment to his alma mater. Mr. Lu's achievements were further recognized in 2015, when he received the "Alumni Award for Distinguished Service" from the College of Engineering, in recognition of his outstanding leadership, service and commitment to the field of engineering, society at large and his impact at the University of Illinois at Urbana-Champaign.

During the period from February 2000 to June 2013, Mr. Lu was a director of Hon Hai, listed on the Taiwan Stock Exchange (stock code: 2317). Mr. Sung-Ching Lu is the brother of Mr. Pochin Christopher Lu, our executive Director.

Mr. LU Pochin Christopher (盧伯卿), aged 59, was appointed as our executive Director on March 16, 2015. He is also the global chief operating officer and chief financial officer of our Company. Mr. Lu is responsible for providing strategic advice and guidance on the business development of the Group. Mr. Lu joined the Los Angeles office of Deloitte Haskins & Sells (now Deloitte Touche Tohmatsu) as an audit associate in 1981. During his 34 years of service with Deloitte Touche Tohmatsu, he held multiple executive positions, including Deloitte China CEO from 2008 to 2013, and member of the Deloitte Touche Tohmatsu Limited Global Executive Committee from 2012 to 2013. He has also led a number of Deloitte Touche Tohmatsu initiatives in support of national policies and programs such as those of the Ministry of Finance and the State-owned Assets Supervision & Administration Commission. He retired from Deloitte China in December 2014.

Mr. Lu's professional and personal contributions have been recognized by the community. He is a two-time winner of Shanghai's Magnolia Award in 2003 and 2005, which recognizes expatriates for their significant contributions to the development of the city of Shanghai.

Mr. Lu obtained a bachelor of science degree in accounting and a master of accounting science degree from the University of Illinois at Urbana-Champaign in the United States in 1980 and 1981, respectively. He has been a member of the American Institute of Certified Public Accountants since November 30, 1988 and he has been a member of the Chinese Institute of Certified Public Accountants since February 4, 1999.

Since August 12, 2015, Mr. Lu has been an independent non-executive director and chairman of the audit committee of Greenland Holdings Corp Ltd (綠地控股集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600606). In addition, since September 18, 2016, Mr. Lu has been an independent non-executive director, chairman of the audit committee and a member of the nomination committee of Honma Golf Limited (本間高爾夫有限公司), a company listed on the Stock Exchange (stock code: 6858), engaging in the business of manufacturing and selling golf clubs, golf balls, apparel and other related products. In addition, since October 27, 2016, Mr. Lu has been an independent non-executive director, chairman of the audit committee and member of the remuneration committee of Pantronics Holdings Limited (桐成控股有限公司), a company listed on the Stock Exchange (stock code: 1611) and operating in the electronic manufacturing services industry.

Since March 1, 2018, Mr. Lu has been a special assistant to the chairman of Hon Hai, listed on the Taiwan Stock Exchange (stock code: 2317). Mr. Pochin Christopher Lu is the brother of Mr. Sung-Ching Lu, our Chairman of the Board and executive Director.

Mr. GILLESPIE William Ralph, aged 70, was appointed as our executive Director on June 28, 2016. He has been the chief operating officer of our Company since 2013 and is primarily responsible for our operations in the United States, Europe, the Middle East and Africa. Prior to joining our Group, Mr. Gillespie had been working as a consultant to our predecessor from June 2010 to October 2013 and was appointed as senior vice president and chief operating officer of our predecessor in 2012. Prior to joining the Hon Hai Group, Mr. Gillespie joined Intel Corp, a company engaged in the semi-conductor business, in 1990. In addition to his experience and expertise in technology, Mr. Gillespie also served as a manager of MBG Holdings, a company engaged in consultancy and investment business, from 2001 to 2010.

Mr. Gillespie obtained a degree of associate in arts Magna Cum Laude from Los Angeles City College in June 1974 and attended California State University Los Angeles. He also completed a concentrated program of Executive Stress: A Management Tool organized by the American Management Associates, in January 1980.

Mr. Gillespie is a veteran of the U.S. air force. He has been making personal contributions to his community and different organizations, including the Urban League of Portland. Mr. Gillespie also hosted a Presidential visit from President Ronald Reagan while he was a Plant Manager for Digital Equipment Corporation's Boston plant, in 1983.

NON-EXECUTIVE DIRECTOR

Dr. CHEN Ga-Lane (陳杰良), aged 65, was appointed as our non-executive Director on April 1, 2016. He is primarily responsible for providing strategic advice and making recommendations on the operations and management of our Company. Dr. Chen is the Chief Investment Officer and the Chief Technology Officer of the Hon Hai Group. He joined the Hon Hai Group since 2000, previously serving as the president of Foxconn Optical Technology Inc..

Prior to joining the Hon Hai Group, Dr. Chen worked in Komag, Inc. a company engaged in the mixed media business since 1986. Dr. Chen also worked at HMT Technology Corporation, a company engaged in the hard disk and media business since 1993. He worked in the following companies which engaged in the data storage business: Conner Peripherals in 1995 and Seagate Technology, Inc. since 1996, during which he contributed to the development of new optical and magnetic technology.

Dr. Chen obtained a bachelor's of science degree in engineering from National Taiwan University in 1976, and a Ph.D. from the University of Minnesota in the United States in 1985.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CURWEN Peter D, aged 60, was appointed as our independent non-executive Director on November 4, 2016. He is primarily responsible for providing strategic advice and making recommendations on the operations and management of our Company. Mr. Curwen has over 30 years of experience in the connector industry. Prior to joining the Group, Mr. Curwen worked at Amphenol FCI (previously known as E.I. du Pont de Nemours and Company, Berg Electronics Group Inc. and FCI), a company engaged in the connector and cable assembly solutions business, since May 1981, and he served as a vice president and general manager of various business divisions of FCI from 2007 to 2011, and the president of the electronics division from August 2011 to September 2012. From 2012 to 2013, he was a Strategy adviser of FCI Holding S.A.S., a company engaged in the electronic connectors and cable assemblies business. In addition, Mr. Curwen was appointed as the President of Conesys, a company engaged in the industrial electronic connectors business, in February 2013.

Mr. Curwen obtained a bachelor's degree in physics from Hartwick College in the United States, and a bachelor's degree in mechanical engineering from Columbia University in the United States, both in 1981.

Mr. TANG Kwai Chang (鄧貴彰), aged 65, was appointed as our independent non-executive Director on November 4, 2016. He is primarily responsible for supervising and providing independent judgment for the Board. Mr. Tang is a fellow member of both the Chartered Association of Accountants (admitted on November 8, 1984) and the Hong Kong Institute of Certified Public Accountants (certified on February 23, 1988).

Mr. Tang has over 35 years of experience in accounting, auditing and audit risk management, including holding senior management positions as vice chairman of Deloitte China and a member of the board of Deloitte Global. He joined Deloitte Haskins & Sells (now Deloitte Touche Tohmatsu) as an audit trainee in 1976, and left in July 1980 as a senior accountant. Mr. Tang joined GPI (Holdings) Limited, a company engaged in the manufacturing and trading of electronics and electrical products, as an assistant finance manager in August 1980. Mr. Tang re-joined Deloitte Touche Tohmatsu in January 1982 as a senior accountant and became a partner in April 1988, and practiced as a certified public accountant. During his 35 years at Deloitte, Mr. Tang was responsible for providing audit and audit related services as well as undertaking management and governance roles within the firm, until he retired in May 2013.

Mr. Tang obtained his diploma in accounting from Hong Kong Baptist College (currently known as Hong Kong Baptist University) in June 1976. He was an honorary member of the Court of Hong Kong Baptist University from January 2007 to December 2011, has been a member of the Court of Hong Kong Baptist University since November 2011. Mr. Tang has also been a member of the disciplinary panel of the Hong Kong Institute of Certified Public Accountants since August 2008.

Mr. Tang has been an independent non-executive director of HKR International Limited (香港興業國際集團有限公司), a company listed on the Stock Exchange (stock code: 480) since September 24, 2014 and is also the chairman of its audit committee. In addition, since April 1, 2017, Mr. Tang has been a director of Bank of Communications (Hong Kong) Limited (交通銀行(香港)有限公司), a company involved in the financial services industry. Furthermore, Mr. Tang is also currently a director for the following two subsidiaries under China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司), a company involved in the steel manufacturing industry: Baosteel Resources Co., Ltd (as of July 21, 2016) and Baosteel Resources International Company Limited (as of August 16, 2016).

Mr. CHAN Wing Yuen Hubert (陳永源), aged 60, was appointed as our independent non-executive Director on November 4, 2016. As of the Latest Practicable Date, he is engaged with the following listed companies in Hong Kong:

Company Name and Principal Business	Stock Code	Position	Date of Appointment	Roles and Responsibilities
Zhong Fa Zhan Holdings Limited (中發展控股有限公司) (previously known as Noble Jewelry Holdings Limited (億鑽珠寶有限公司)), engaging in the jewelry wholesale and solar energy businesses	475	Executive director and chief executive	November 2011	Formulating and executing business policies for the company
Northern New Energy Holdings Limited (北方新能源控股有限公司) (previously known as Noble House (China) Holdings Limited (名軒(中國)控股有限公司)), engaging in the new energy development and catering businesses	8246	Executive director and chief executive officer	August 2014	Overall corporate development and strategic planning for the company
Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司), engaging in providing live social video platforms and the mobile games business	1980	Independent non-executive director	June 2014	As an independent director
Shanghai La Chapelle Fashion Co., Ltd (上海拉夏貝爾服飾股份有限公司), engaging in the design, marketing and selling apparel products in mainland China	6116 (also listed on the Shanghai Stock Exchange (stock code: 603157))	Independent non-executive director	July 2016	As an independent director

He spent over ten years with the Stock Exchange from February 1987 to August 1997 and his last position was director of the listing division (China Listing Affairs Department) and was responsible for formulating the policy of the Stock Exchange in dealing with mainland China listing related matters and providing support to the Corporate Finance Department in handling listing matters with mainland China issues (e.g. H share listing applications). In addition, Mr. Chan held various positions with companies listed in Hong Kong, including: as an executive director of Softpower International Limited (冠力國際有限公司) (previously known as China Pipe Group Limited (中國管業集團有限公司)) (stock code: 380) from June 2007 to February 2009, as an executive director and the chief executive officer of EverChina Int'l Holdings Company Limited (潤中國際控股有限公司) (previously known as Interchina Holdings Company Limited (國中控股有限公司)) (stock code: 202) from March 2002 to June 2009, as an independent non-executive director of China Smarter Energy Group Holdings Limited (中國智慧能源集團控股有限公司) (previously known as Rising Development Holdings Limited (麗盛集團控股有限公司)) (stock code: 1004) from September 1999 to September 2007, and as a director and deputy general manager of Guangdong Investment Limited (粵海投資有限公司) (stock code: 270) from August 1997 to January 2000.

Mr. Chan obtained a higher diploma in company secretaryship and administration from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in November 1982. Mr. Chan has been an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries since February 1986 and August 1994 respectively, and has also been a member of The Hong Kong Institute of Directors and the Hong Kong Securities and Investments Institute since 1998 and April 1999 respectively. In addition, he has been a member of the Chinese People's Political Consultative Conference — Heilongjiang Province Committee (中國人民政治協商會議黑龍江省委員會) since January 2008.

SENIOR MANAGEMENT

Mr. LIN Chin-Tsun (林金村), aged 58, joined our Group on October 1, 2013 and was appointed as the director of Financial and Accounting on November 1, 2014. He is primarily responsible for managing, accounting and financial management related matters. From May 1999 to September 2013, he worked for our predecessor, holding positions of senior manager and head of the business management department immediately prior to joining our Group.

Mr. Lin obtained a master of science degree from the University of Florida in the United States in December 1989. From June 2011 to June 2017, Mr. Lin was a non-executive director of Pan-International Industrial Corp. (廣宇科技股份有限公司), a company that provides electronic manufacturing services and a subsidiary of one of our top 5 suppliers. Pan-International Industrial Corp. is listed on the Taiwan Stock Exchange (stock code: 2328).

Mr. CHENG Lee-Ming (鄭禮明), aged 63, joined our Group on October 1, 2013 and was appointed as Vice President for Emerging Application Business of our predecessor New Wing Interconnection Business Group on July 1, 2009. He currently also serves as the chairman of FIT Electronics Device Pte. Ltd., a subsidiary of our Company.

Prior to joining our Group, Mr. Cheng had worked in Hon Hai and one of its subsidiaries for more than two decades. He joined Foxconn Electronics Inc., a subsidiary of Hon Hai, as a manager and was responsible for running the product development center in July 1990. From July 1993 onwards, he worked within the wider Hon Hai Group and held a number of positions, including manager of the product development department, vice president of the marketing and sales department for our predecessor, and deputy general manager of our emerging application business.

Mr. Cheng obtained a master of science from Marquette University in the United States in 1985.

Dr. WU Li-Chun (吳立峯), aged 52, joined our Group on October 1, 2013 and was appointed as an assistant general manager on the same date. He is in charge of our Company's communications business. He currently also serves as the chairman of Huai'an Tengyue Information Technology Company Limited (淮安騰躍信息科技有限公司) and Fu Sheng Optoelectronics Technology (Kun Shan) Co., Ltd. (富聖光電科技(昆山)有限公司), subsidiaries of our Company.

Dr. Wu worked at Hon Hai from August 1997 to September 2013, where he was responsible for business management and operations, and held a position as the head of the communication and network business unit immediately prior to joining our Group.

Dr. Wu obtained a Ph.D. in mechanical engineering from The State University of New York at Stony Brook in the United States in 1997.

Ms. EZEDINLO Maryam, aged 55, joined our Group on December 28, 2015, and was appointed as our vice president and general manager of Foxconn Optical Interconnect Technologies Inc., on February 1, 2017. She is responsible for managing operation-related matters of Foxconn Optical Interconnect Technologies Inc.'s optical modules business. Prior to joining our Group, Ms. Ezedinlo worked for more than five years at Avago Technologies Inc. (now known as Broadcom Limited and listed on NASDAQ (stock code: AVGO)) until 2015.

Ms. Ezedinlo obtained a bachelor of science degree in computer science technology from Alabama Agricultural and Mechanical University in the United States in 1982. She also completed a "Six Sigma" training program in 2001.

Directors' Report

The Board is pleased to present its report and the audited consolidated financial statements of the Group for the year ended December 31, 2017 (the "Reporting Period").

GLOBAL OFFERING

The Company is an exempted company incorporated in the Cayman Islands with limited liability on April 8, 2013, carrying on business in Hong Kong as "FIT Hong Teng Limited (鴻騰六零八八精密科技股份有限公司)", and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance under an approved English corporate name pursuant to section 782 of the Companies Ordinance as "FIT Hon Teng Limited" and an approved Chinese corporate name as "鴻騰六零八八精密科技股份有限公司" (as a result of being served a notice by the Registrar of Companies pursuant to section 780 of the Companies Ordinance). Our Company's shares became listed on the Main Board of the Stock Exchange on July 13, 2017.

PRINCIPAL BUSINESS

The Group is principally engaged in the manufacture, sales and service of connectors, wired/wireless communication products, optical communication products, assemblies and other products for use in the information technology, communications, automotive equipment, precision molding, automobile and consumer electronics industries. The Group carries out its manufacturing process mainly through the production complexes located in the PRC and Vietnam during the Reporting Period, while the sales and services of the Group are principally conducted in Taiwan, Singapore, the PRC and the United States.

RESULTS

The results of the Group for the year ended December 31, 2017 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 55 to 56 of this Annual Report.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.055 per Share for the year ended December 31, 2017. The final dividend is subject to the approval of the Shareholders at the AGM to be held on June 22, 2018 and will be paid on July 20, 2018 to the Shareholders whose names appear on the register of members of the Company on July 10, 2018.

BUSINESS REVIEW

A review of the business of the Group and a discussion and analysis of the Group's performance during the year and an indication of likely future developments in the Group's business are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 5 to 6 and pages 7 to 15 of this Annual Report respectively. Further discussion on the environmental policies and performance together with the compliance with the relevant laws and regulations of the Group, and the discussion on the relationship with the employees, customers and suppliers, are set out in the Company's "2017 Environmental and Social Responsibility Report" published on the Stock Exchange's website at http://www.hkexnews.hk. Description of the risks and uncertainties facing the Group can be found throughout this Annual Report. These discussions form part of this Directors' Report.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities as well as certain financial and operating ratios of the Group for the last four financial years is set out on page 4 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2017, sales to our top five customers accounted for 65.4% of the Group's total revenues (2016: 56.1%) while sales to our single largest customer accounted for 23.4% of the Group's total revenues (2016: 29.0%).

Major Suppliers

For the year ended December 31, 2017, purchases from our top five suppliers accounted for 38.2% of the Group's total purchases (2016: 53.7%) as of the year ended December 31, 2017 while purchases from our single largest supplier accounted for 13.1% of the Group's total purchases (2016: 20.6%).

During the Reporting Period, none of the Directors, any of their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the number of the issued shares of the Company) was interested in the top five customers or suppliers of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Company and the Group during the Reporting Period are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in note 26 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Reporting Period are set out in the consolidated statement of changes in equity on pages 59 to 60 of this Annual Report.

RESERVES AVAILABLE FOR DISTRIBUTION

As at December 31, 2017, the Company's reserves available for distribution amounted to approximately US$1,486 million (December 31, 2016: approximately US$1,085 million).

BANK BORROWINGS

Particulars of bank borrowings of the Group as at December 31, 2017 are set out in note 28 to the consolidated financial statements.

DIRECTORS

The Directors during the Reporting Period and up to the Latest Practicable Date are as follows:

Executive Directors:

Mr. LU Sung-Ching (盧松青)
Mr. LU Pochin Christopher (盧伯卿)
Mr. GILLESPIE William Ralph

Non-executive Director:

Dr. CHEN Ga-Lane (陳杰良)

Independent Non-executive Directors:

Mr. CURWEN Peter D
Mr. TANG Kwai Chang (鄧貴彰)
Mr. CHAN Wing Yuen Hubert (陳永源)

In accordance with article 83(3) of the Articles of Association, Mr. LU Sung-Ching, Mr. LU Pochin Christopher, Mr. GILLESPIE William Ralph, Dr. CHEN Ga-Lane, Mr. CURWEN Peter D, Mr. TANG Kwai Chang and Mr. CHAN Wing Yuen Hubert shall retire by rotation, and being eligible, offer themselves for re-election at the AGM.

The particulars of Directors who are subject to re-election at the AGM are set out in the circular to be dispatched to the Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 16 to 20 of this Annual Report.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all of the independent non-executive Directors are independent from the Listing Date up to the Latest Practicable Date.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors, Mr. LU Sung-Ching (盧松青), Mr. LU Pochin Christopher (盧伯卿) and Mr. GILLESPIE William Ralph, has entered into a service contract with the Company on June 20, 2017, June 20, 2017 and November 4, 2016, respectively, with an initial fixed term of three years. Such contracts shall be subject to termination in accordance with their respective terms and may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

The non-executive Director and each of the independent non-executive Directors has signed a letter of appointment with the Company on November 4, 2016, with an initial fixed term of three years. Such letters of appointment shall be subject to termination in accordance with their respective terms.

Save as disclosed above, none of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director or entity connected with a Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party and which subsisted at the end of or at any time during the year ended December 31, 2017.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period and up to the Latest Practicable Date.

EMOLUMENT POLICY

The Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

Details of the emoluments of the Directors, and the five highest paid individuals during the Reporting Period are set out in note 10 to the consolidated financial statements.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in notes 2.22 and 10 to the consolidated financial statements.

CHANGES OF INFORMATION IN RELATION TO THE DIRECTORS

There was no change to any information required to be disclosed in relation to any Director pursuant to Rule 13.51(2)(a) to (e) and (g) of the Listing Rules during the Reporting Period.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (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 they were taken or deemed to have under the provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in the Shares

Name of Director	Capacity and nature of interest	Number of Shares held	Approximate percentage of shareholding
LU Sung-Ching (盧松青)[1]	Beneficial owner	95,720,000	1.42%
LU Pochin Christopher (盧伯卿)	Beneficial owner	12,512,000	0.19%
CHEN Ga-Lane (陳杰良)	Beneficial owner	2,400,000	0.04%

Note:

1. Mr. LU Sung-Ching is also interested in 349,440,000 Shares under the Share Grant Scheme.

Save as disclosed above, as at December 31, 2017, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) that was recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this Annual Report, at no time during the Reporting Period were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or minor children, or were there any such rights exercised by the Directors; or was the Company, or any of its holding companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2017, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as was known to the Directors or chief executives of the Company, the persons or entities, other than a Director or chief executives of the Company, who had an interest or a short position in the Shares or the underlying Shares 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 directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other company which is a subsidiary of the Company, or in any options in respect of such share capital were as follows:

Long positions in the Shares

Name of Shareholder	Capacity and nature of interest	Number of Shares held	Approximate percentage of shareholding
Hon Hai	Interest in controlled corporation[1]	5,179,557,888	76.92%
Foxconn (Far East) Limited ("Foxconn Far East Cayman")*	Interest in controlled corporation[2]	5,179,557,888	76.92%
Foxconn (Far East) Limited ("Foxconn Far East Hong Kong")**	Beneficial owner	5,179,557,888	76.92%

* Foxconn Far East Cayman means Foxconn (Far East) Limited, an exempted company incorporated in the Cayman Islands with limited liability on January 25, 1996 which owns 100% issued shares of Foxconn Far East Hong Kong.

** Foxconn Far East Hong Kong means Foxconn (Far East) Limited, a limited liability company incorporated in Hong Kong on December 29, 1988.

Notes:

1. Hon Hai holds the entire issued shares of Foxconn Far East Cayman, which in turn holds the entire issued shares of Foxconn Far East Hong Kong.

2. Foxconn Far East Cayman holds the entire issued share capital of Foxconn Far East Hong Kong, which in turn holds 5,179,557,888 Shares.

Save as disclosed above, as at December 31, 2017, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares 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.

SHARE GRANT SCHEME AND SHARE OPTION SCHEME

The Share Grant Scheme was approved and adopted by the Board on January 5, 2015, and the Board further adopted the rules and interpretations thereof on November 4, 2016. The purpose of the Share Grant Scheme is to incentivize Directors, senior management and employees for their contribution to the Group and to attract, motivate and retain skilled and experienced personnel for further development of the Group. Please refer to the section headed "Statutory and General Information — Share Grant Scheme" of the Prospectus for further details of the Share Grant Scheme.

Details of the interests of the Directors in the Share Grant Scheme are set out below:

Name of Director	Date of grant	Number of Shares Granted
LU Sung-Ching (盧松青)	January 5, 2015	349,440,000
GILLESPIE William Ralph	January 18, 2016	1,632,000

SHARE OPTION SCHEME

The Share Option Scheme was conditionally approved and adopted by our Shareholders on December 19, 2017 (the "Adoption Date"). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to enable the Group to offer valuable incentive to attract and retain quality personnel to work towards enhancing the value and attaining the long-term objectives of the Group.

The Board may, in its absolute discretion, offer to grant an option (an "Option") to any director or employee of the Group, any customer of or supplier of goods or services to the Group, any customer of or supplier of goods or services to any entity in which the Group holds any equity interest (an "Invested Entity"), or any person or entity that provides research, development or technical support to the Group or any Invested Entity (each of whom a "Qualified Participant"). An offer for an Option must be accepted by the relevant Qualified Participant on a date not later than five business days after the Option is offered to a Qualified Participant. An amount of HKD1.00 is payable as consideration for acceptance of the grant.

The maximum number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 130,000,000 Shares, representing approximately 1.9% of the share capital of the Company in issue at the Adoption Date (the "Option Limit") provided that:

(i) the Company may seek approval by Shareholders in general meeting to refresh the Option Limit; and

(ii) the Company may seek separate Shareholders' approval in general meeting to grant Options beyond the Option Limit provided that the Options in excess of the Option Limit are granted only to Qualified Participants specifically identified by the Company before such approval is sought,

subject to the limitation that the maximum number of Shares which may be issued or issuable upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

The maximum number of Shares (issued and to be issued upon the exercise of Options) in respect of which Options may be granted under the Share Option Scheme to any one grantee in any 12-month period shall not exceed 1% of the share capital of the Company in issue unless approval of the Shareholders has been obtained in accordance with the Listing Rules.

The Share Option Scheme will remain in force from the Adoption Date up to (and including) December 31, 2018. As at the Latest Practicable Date, the remaining life of the Share Option Scheme was around 9 months. A grantee may subscribe for Shares during such period as may be determined by the Directors (which shall not be more than 10 years from the date of grant of the relevant Option and may include the minimum period, if any, for which an Option must be held before it can be exercised). The Directors may, at their absolute discretion, specify at the time of the grant, the performance targets (if any) that must be achieved before the Option can be exercised.

The exercise price of an Option shall not be less than the higher of (i) the closing price per Share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the Option; (ii) the average closing price per Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the grant of the Option; and (iii) nominal value of the Shares.

For further details about the Share Option Scheme, please refer to the Company's circular dated December 4, 2017.

No Option had been granted, exercised or cancelled or had lapsed from the Adoption Date to the end of the Reporting Period, and no Option was outstanding as at the end of the Reporting Period.

Subsequent to the Reporting Period, 25,705,400 Options at the exercise price of HK$5.338 per Share were granted by the Company under the Share Option Scheme on January 18, 2018. As at the date of such grant of Options, none of the grantees was a Director, chief executive or substantial shareholder of the Company, or any of their respective associates (as defined in the Listing Rules). For further details about such grant of Options, please refer to the Company's announcement dated January 18, 2018.

As at the Latest Practicable Date, the total number of Shares available for issue under the Share Option Scheme is 130,000,000 Shares, representing approximately 1.9% of the share capital of the Company, of which 25,705,400 Shares are issuable upon exercise of the aforesaid 25,705,400 Options already granted.

Save as disclosed above, the Company has not entered into any other share option scheme.

EQUITY-LINKED AGREEMENT

Other than disclosed in this Annual Report, there was no equity-linked agreement entered into by the Company or any of its subsidiaries during the Reporting Period or subsisted at the end of the year.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES

During the period from the Listing Date to the Latest Practicable Date, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights under the Articles of Association and the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

NON-COMPETITION UNDERTAKING

To safeguard our Group from any potential competition, Hon Hai (the "Covenantor") has provided an irrevocable deed (the "Deed of Non-Competition") to the Company on June 6, 2016, pursuant to which the Covenantor irrevocably undertook to our Company that it shall not, and shall procure that its affiliates and its close associates (as ascribed under the Listing Rules, other than any member of our Group) shall not, directly or indirectly, invest in, participate in, carry on, and/or operate any business (including the design, development, production and sales of connectors, antennas, acoustics component, cables and cable assemblies products) or any other business that the Group plans to engage as described in the Prospectus which is in any respect in competition with or is likely to be in competition with or benefit from either on its own account, through its representatives or together with any third parties.

For details of the Deed of Non-Competition, please see "Non-Competition Undertaking" under the section headed "Relationship with Our Controlling Shareholders" in the Prospectus.

Based on the information and confirmation provided by the controlling Shareholders, the independent non-executive Directors have reviewed the implementation of non-competition undertaking during the Reporting Period, and are satisfied that the controlling shareholders have complied with the Deed of Non-Competition.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this Annual Report, none of the Directors or their associates had any interest in any business which directly or indirectly compete or may compete with the businesses of our Group during the period from the Listing Date to December 31, 2017.

CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the continuing connected transactions conducted by the Group were described below.

The following entities are our connected persons:

- Hon Hai, a controlling Shareholder and hence our connected person; and

- Hon Hai Group, each entity being a subsidiary or associate of our controlling Shareholder and hence our connected persons.

Non-Exempted Continuing Connected Transactions with Hon Hai Group

We set forth below (a) the procurement of molding parts transactions between our Group as the purchaser and Hon Hai Group as the supplier; (b) the general services and costs sharing with Hon Hai Group; (c) the equipment sales transactions between our Group as the supplier and Hon Hai Group as the purchaser; (d) the equipment procurement transactions between our Group as the purchaser and Hon Hai Group as the supplier; and (e) the property leasing agreements between the relevant members of our Group, as the lessee, and Hon Hai Group, as the lessor. Since Hon Hai Group are our connected persons and our transactions with these entities under each category of (a) – (e) below are respectively of a similar nature, the transactions within each category will be aggregated and treated as if they were one transaction for the respective category pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the respective categories of transactions with each of these entities are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14 of the Listing Rules. As the applicable percentage ratios (other than the profits ratio) for the transactions under each of the above categories are more than 0.1% but below 5%, the transactions contemplated therein are exempted from the circular (including independent financial advice) and independent shareholders' approval requirements, but subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

Our Directors are of the view that these transactions will be conducted on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

(a) Framework Molding Parts Agreement

Our Group entered into a framework molding parts agreement with Hon Hai, pursuant to which we procure various molding parts from Hon Hai Group. The term of the molding parts agreement is three years commencing on the Listing Date.

As to the pricing policy, we would run a price quote process to check price quotes from a minimum of three independent third party qualified suppliers for the products of same specification and quality. If a lower price exists, we would either engage independent third party suppliers to carry out the work or request Hon Hai and its other subsidiaries to lower their fee quote. If no independent third party supplier is available, the price is determined on cost-plus basis, with a mark-up of up to 10%.

For the year ended December 31, 2017, the annual cap of the maximum aggregate annual amount payable to Hon Hai Group was set at US$72.4 million, the actual aggregate amount was approximately US$59.2 million.

(b) General Services and Costs Sharing Agreement (as Expenses) with Hon Hai Group

Our Group entered into a general services and costs sharing agreement with Hon Hai, pursuant to which our Group will share the costs of certain services and office spaces of subsidiaries of Hon Hai Group including telecommunication, general administrative and IT system support, utility, logistics and other services. The term of the agreement is three years commencing on the Listing Date.

For the year ended December 31, 2017, the annual cap of the maximum aggregate annual fee payable to Hon Hai Group was set at US$4.1 million, the actual aggregate amount was approximately US$3.2 million.

(c) Framework Equipment Sales Agreement

Our Group entered into a framework equipment sales agreement with Hon Hai, pursuant to which we sell to Hon Hai Group equipment and facilities primarily used in connection with the production activities of Hon Hai Group. Such equipment and facilities may include forming machines, stamping press and computer hardware. The framework equipment sales agreement was effective during the period of January 1, 2017 to December 31, 2017.

As to the pricing policy, the consideration for transactions contemplated under the framework equipment sales agreement was determined with reference to (i) the net book value of the relevant equipment as recorded in the accounts of the relevant member of the Group; and if inappropriate or inapplicable, (ii) the market price (which is the price offered by independent third parties for acquiring the same or similar equipment or facilities).

For the year ended December 31, 2017, the annual cap of the aggregate annual sales amount to Hon Hai Group was set at US$6.1 million, the actual aggregate amount was approximately US$4.3 million.

(d) Framework Equipment Purchase Agreement

Our Group entered into a framework equipment purchase agreement with Hon Hai, pursuant to which we purchase from Hon Hai Group equipment and facilities primarily used in the Group's production activities in connection with serving the mobile and wireless devices, communications infrastructure, computer and consumer electronics end markets (in particular, connectors required in the communications infrastructure, computer and consumer electronics end market). Such equipment and facilities may include air-conditioning system, automatic assembly equipment, metal flattening machines and computer software. The framework equipment purchase agreement was effective during the period of January 1, 2017 to December 31, 2017.

As to the pricing policy, the purchase price for the equipment and facilities under the framework equipment purchase agreement was determined with reference to (i) the net book value of the relevant equipment as recorded in the accounts of the relevant member of Hon Hai Group; and if inappropriate or inapplicable, (ii) the market price (which is the price required by independent third parties selling the same or similar equipment or facilities).

For the year ended December 31, 2017, the annual cap of the aggregate annual procurement amount from Hon Hai Group was set at US$5.2 million, the actual aggregate amount was approximately US$3.4 million.

(e) Framework Property Leasing Agreement

Our Group entered into a framework property leasing agreement with Hon Hai, pursuant to which we may lease the properties of Hon Hai or its subsidiaries for manufacturing facilities and office purpose. The framework property leasing agreement is effective during the period of January 1, 2017 to December 31, 2019.

As to the pricing policy, we would negotiate the rent with Hon Hai or its subsidiaries based on the actual area of the leased property and at a price not higher than the current market price, and settle the rental payment by bank transfer.

For the year ended December 31, 2017, the annual cap of the aggregate annual rental payment to Hon Hai Group was set at US$3.0 million, the actual aggregate amount was approximately US$2.8 million.

We set forth below (f) the sales transactions between our Group as the supplier and Hon Hai Group as the purchaser; (g) the procurement transactions between our Group as the purchaser and Hon Hai Group as the supplier; and (h) the sub-contracting transactions between our Group as the customer and Hon Hai Group as the sub-contractor. Since Hon Hai Group are our connected persons and our transactions with these entities under each category of (f) – (h) below are respectively of a similar nature, the transactions within each category will be aggregated and treated as if they were one transaction for the respective category pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the respective categories of transactions with each of these entities are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14 of the Listing Rules. The transactions under each of the above categories where at least one of the relevant percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing rules will, as the Directors currently expect, be, on an annual basis, more than 5%. The transactions will be subject to the annual reporting, annual review, announcement, circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(f) Framework Sales Agreement

Our Group entered into a framework sales agreement with Hon Hai, pursuant to which Hon Hai Group purchase various interconnect solutions and other related products from us. Such transactions mainly represent sales to Hon Hai Group as contract manufacturers, of which more than 50% are designated by the top five brand companies who are the primary decision makers when such sales are made. The term of the framework sales agreement is three years commencing on the Listing Date.

As to the pricing policy, for the sales to Hon Hai Group that are designated by our brand company customers, the selling prices of our customized interconnect solutions and other products are negotiated and determined between our brand company customers and us. For other sales to Hon Hai Group where selling prices were not designated by our customers ("Connected Sales"), the selling prices are determined by referencing the blended profit margin, which is the difference between revenue generated from such sales and historical cost allocated thereto for the preceding month, divided by the corresponding revenue, to that of sales to independent third parties ("Third Party Sales"), on a rolling basis, such that the differences in the blended profit margins between Connected Sales and Third Party Sales in each fiscal year shall not be more than 6.5% having considered the long-term business relationship, large sales volume to Hon Hai Group, and the strategic partnership with Hon Hai Group.

For the year ended December 31, 2017, the annual cap of the aggregate annual sales amount to Hon Hai Group was set at US$1,008.8 million, the actual aggregate amount was approximately US$753.4 million.

(g) Framework Purchase Agreement

Our Group entered into a framework purchase agreement with Hon Hai, pursuant to which we purchase from Hon Hai Group various raw materials, ancillary materials and semi-finished components and assembled products under the following three procurement models: (1) purchase of gold salts from Hon Hai Group as our raw materials ("Model One"); (2) purchase of ancillary materials from Hon Hai Group ("Model Two"); and (3) purchase of semi-finished components and assembled products from Hon Hai Group to whom we provide certain raw materials and components for their production of semi-finished components and assembled products ("Model Three"). The term of the framework purchase agreement is three years commencing on the Listing Date.

Model One's pricing policy: for our procurement of gold salts, the commodity spot prices represent the majority of our purchase prices, with the remainder being processing fees. We will obtain and compare fee proposals provided by Hon Hai Group and independent third party suppliers on a quarterly basis to the extent practicable. As a risk control measure, we procure gold salts from more than one supplier, but allocate at least 70% annual purchase from the supplier with the lowest fee quote.

Model Two's pricing policy: for our procurement of ancillary raw materials, our purchase prices are, when designated by our customers, the prices agreed between Hon Hai Group and our customers, or determined with reference to comparable third-party prices to the extent independent-third-party suppliers are available.

Model Three's pricing policy: under the framework purchase agreement, the purchase prices of our semi-finished goods and assembled products are determined based on (a) Hon Hai Group's purchase prices of raw materials supplied by us, (b) their purchase prices of other raw materials, (c) their labor costs and overheads and (d) handling fees up to 5% of relevant labor cost and overheads.

For the year ended December 31, 2017, the annual cap of the aggregate annual procurement amount from Hon Hai Group was set at US$508.5 million, the actual aggregate amount was approximately US$437.9 million.

(h) Framework Sub-contracting Services Agreement

Our Group entered into a framework sub-contracting services agreement with Hon Hai, pursuant to which Hon Hai Group provides us with sub-contracting services from time to time. The term of the framework sub-contracting services agreement is three years commencing on the Listing Date.

As to the pricing policy, under the framework sub-contracting services agreement, the sub-contracting fees are determined based on relevant (i) labor costs and overheads and (ii) handling fee of up to 5% of relevant labor costs and overheads. Where such cost break-down is not readily available, the sub-contracting fees are determined with reference to comparable third-party prices.

For the year ended December 31, 2017, the annual cap of the aggregate annual sub-contracting services fee amount to Hon Hai Group was set at US$88.3 million, the actual aggregate amount was approximately US$72.9 million.

During the Reporting Period, our independent non-executive Directors have reviewed the above non-exempted continuing connected transactions and have confirmed that such transactions were entered into:

(i) in the ordinary and usual course of business of the Group;
(ii) on normal or better commercial terms; and
(iii) in accordance with the agreements for such transactions, the terms of which are fair and reasonable, and are in the interest of the shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 29 to 33 of this Annual Report in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Other related party transactions entered into by the Group during the year ended December 31, 2017 as set out in note 34 to the consolidated financial statements do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Save as disclosed in this Annual Report, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company during the Reporting Period in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules.

CHARITABLE DONATIONS

During the Reporting Period, the Group has made charitable donations totaling HK$1,000,000 in connection with the Listing.

MATERIAL LEGAL PROCEEDINGS

During the Reporting Period, the Company was not involved in any material legal proceedings or arbitrations. To the best knowledge of the Directors, there is no material legal proceeding or claim which is pending or threatening against the Company.

PERMITTED INDEMNITY PROVISIONS

During the Reporting Period and up to the Latest Practicable Date, save as disclosed below, there were no permitted indemnity provisions which were or are currently in force, and are beneficial to the Directors (whether they were entered into by the Company or others) or any directors of the Company's connected companies (if they were entered into by the Company).

The Company has purchased appropriate Directors' and officers' liability insurance for its Directors and senior staff.

EVENTS AFTER THE BALANCE SHEET DATE

Details of significant events occurring after the balance sheet date are set out in note 36 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by our Company as well as the audited consolidated financial statements for the year ended December 31, 2017.

CORPORATE GOVERNANCE

The Company is committed to maintaining high level of corporate governance practices. Information about the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 36 to 49 in this Annual Report.

SUFFICIENCY OF PUBLIC FLOAT

Reference is made to the section headed "Waivers from Compliance with the Listing Rules — Waiver in relation to Public Float" in the Prospectus which states that the Company's minimum public float will be the higher of (a) 15% of the total issued share capital of the Company; (b) such percentage of Shares held by the public immediately after completion of the Global Offering (as defined in the Prospectus) (assuming the Over-allotment Option (as defined in the Prospectus) is not exercised); or (c) such percentage of Share to be held by the public after the exercise of the Over-allotment Option (as defined in the Prospectus), of the enlarged issued share capital of the Company. The applicable minimum public float for the Shares is 20.48%. Based on the information publicly available to the Company and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float as approved by the Stock Exchange and as permitted under the Listing Rules throughout the period from the Listing Date up to the Latest Practicable Date.

AUDITOR

PricewaterhouseCoopers was appointed as auditor of the Company for the year ended December 31, 2017.

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retires and, being eligible, offers itself for re-appointment at the forthcoming AGM. A resolution for reappointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the AGM.

By Order of the Board
Chairman
LU Sung-Ching (盧松青)

Hong Kong, March 23, 2018

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the period from the Listing Date to December 31, 2017 (the "Relevant Period").

CORPORATE GOVERNANCE PRACTICES

The Group is committed to upholding a high standard of corporate governance to safeguard the interests of the Shareholders and upgrade value and accountability of the corporation. The Company has adopted the CG Code as set out under Appendix 14 to the Listing Rules as its governance code. Save as disclosed in this Annual Report, the Company has complied with all the applicable code provisions as set out under the CG Code during the Relevant Period. The Company will continue to review and monitor its own Corporate Governance Practices to ensure compliance with the CG Code.

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for the overall leadership of our Group, oversees our Group's strategic decisions and monitors our business and performance. The Board has delegated the authority and responsibility of day-to-day management and operation of our Group to the senior management of our Group. To oversee particular aspects of the Company' affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they execute their duties in good faith, in compliance with applicable laws and regulations and in a manner consistent with the interests of the Company and the Shareholders at all times.

The Company has maintained appropriate liability insurance for legal proceedings against Directors and will review the coverage of the insurance annually.

Composition of the Board of Directors

As at the Latest Practicable Date, the Board of Directors comprises three executive Directors, one non-executive Director and three independent non-executive Directors, with details as follows:

Executive Directors:

LU Sung-Ching (盧松青)
LU Pochin Christopher (盧伯卿)
GILLESPIE William Ralph

Non-executive Director:

CHEN Ga-Lane (陳杰良)

Independent Non-executive Directors:

CURWEN Peter D
TANG Kwai Chang (鄧貴彰)
CHAN Wing Yuen Hubert (陳永源)

The biographies of the Board of Directors are set out in the "Directors and Senior Management" section in this Annual Report.

During the Relevant Period, the Board has complied with requirements of Rule 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of at least three independent non-executive Directors with at least one of them possesses appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with the requirement of Rule 3.10A of the Listing Rules in relation to appointing independent non-executive Directors representing at least one-third of the Board.

The Company believes that board diversity will have a substantial benefit in improving its performance. Therefore, the Company has adopted the board diversity policy to ensure that the diversity of Board members be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. A summary of the board diversity policy is set out below:

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance and recognizes diversity at Board level as an essential element in maintaining competitive advantage and sustainable development. In designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Company considers that all independent non-executive Directors are independent pursuant to the criteria set out in Rule 3.13 of the Listing Rules, and that each of the independent non-executive Directors has confirmed his independence.

Save as disclosed in biographies of Directors and Senior Management in this Annual Report, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Directors or chief executives.

Each of the Directors (including the independent non-executive Directors) has brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

Appointment and Continuous Professional Development

All newly appointed Directors are provided with the necessary induction and information to ensure that they have an proper understanding of the operations and business of the Company and their responsibilities under the relevant statutes, laws, rules and regulations. The Company also arranges regular seminars for Directors to provide updated information on the latest developments and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the performance, position and prospects of the Company to enable each Director and the Board as a whole to discharge their duties.

The Company encourages all Directors to participate in professional development to develop and refresh their knowledge and skills. The joint company secretary of the Company has updated and provided written training materials on the roles, functions and duties of Directors from time to time.

Based on the information provided by the Directors, a summary of the trainings received by the Directors for the year ended December 31, 2017 is set out below:

Name of Director	Nature of trainings
LU Sung-Ching (盧松青)	A, B
LU Pochin Christopher (盧伯卿)	A, B
GILLESPIE William Ralph	A, B
CHEN Ga-Lane (陳杰良)	A, B
CURWEN Peter D	A, B
TANG Kwai Chang (鄧貴彰)	A, B
CHAN Wing Yuen Hubert (陳永源)	A, B

Note:

A: Deliver talks at seminars and/or conferences and/or forums

B: Participate in trainings provided by lawyers and trainings related to the Company's business

Chairman and Chief Executive Officer

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman of the Board and chief executive should be separated and should not be performed by the same individual.

Mr. LU Sung-Ching (盧松青), the Chairman and Chief Executive Officer of the Company, is responsible for overall management of the Group and guides the strategic development and business plan of the Group. In view of the current status of the Group's development, the Board considers that the same individual who performs two positions of Chairman and Chief Executive Officer can provide a strong and consistent leadership to the Company and be conducive to the implementation and execution of the Group's business strategy. Nevertheless, we will review the structure from time to time based on the prevailing circumstances. The Board will continue to evaluate the situation and consider the separation of the roles of Chairman and Chief Executive Officer when appropriate, taking into account the general conditions of the Group then.

Appointment and Re-election of the Directors

Mr. LU Sung-Ching (盧松青), Mr. LU Pochin Christopher (盧伯卿) and Mr. GILLESPIE William Ralph, the executive Directors, have entered into service contracts with the Company on June 20, 2017, June 20, 2017 and November 4, 2016 respectively, with a fixed initial term of three years, and the contracts shall be terminated in accordance with their respective terms and may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

Each non-executive Directors and independent non-executive Directors has an appointment letter with the Company for a fixed initial term of three years on November 4, 2016, and appointment letters shall be terminated in accordance with their respective terms.

Save as disclosed above, none of the Directors has a service contract with the Group within one year without the payment of compensation (other than statutory compensation).

The Directors are subject to retirement by rotation and re-election at each annual general meeting of the Company in accordance with article 83(3) of the Articles of Association. Directors appointed as an addition to the Board or to fill a casual vacancy on the Board will be subject to re-election by the Shareholders at the next following annual general meeting or the next following general meeting of the Company respectively after the appointment. Also, when an independent non-executive Director proposed for re-election has served the Company for more than nine years, his or her re-election will be subject to a separate resolution to be approved at the AGM.

Procedures for the appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the composition of the Board of Directors and making recommendations to the Board on the appointment, re-election and succession plans of the Directors.

Board Meetings

The Company will adopt the practice of regularly holding Board meetings at least four times a year at approximately quarterly intervals. Notices of not less than 14 days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board meetings and Board Committee meetings, not less than 48 hours' notice is generally given. The agenda and accompanying Board papers are generally dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. The joint company secretary should keep a record of the meeting and provide a copy of the meeting record to all Directors for their reference and record.

Minutes of the Board meetings and Board Committee meetings have recorded in sufficient detail the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by Directors.

During the Relevant Period, the Board held two Board meetings and two general meetings. Details of the Directors' attendance in Board meetings and general meetings are set out in the following table:

Directors	Board meetings attended/held	General meetings attended/held
LU Sung-Ching (盧松青)	2/2	0/2
LU Pochin Christopher (盧伯卿)	2/2	1/2
GILLESPIE William Ralph	2/2	0/2
CHEN Ga-Lane (陳杰良)	2/2	0/2
CURWEN Peter D	2/2	0/2
TANG Kwai Chang (鄧貴彰)	2/2	0/2
CHAN Wing Yuen Hubert (陳永源)	2/2	0/2

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct for securities transactions. After making specific enquiry to all Directors, they have confirmed that they have fully complied with the requirements set out in the Model Code during the Relevant Period.

BOARD AUTHORIZATION

The Board reserves the right to make decisions on all substantial affairs of the Company, including: to approve and oversee all policies and matters, overall strategy and budgeting, internal control and risk management systems, substantial transactions (particularly those involving potential conflicts of interests), financial data, appointment of Directors and other major financial and operational issues. The Directors may, at the Company's expense, seek independent professional advice when performing their duties. They are also encouraged to independently consult with the senior management of the Company.

The day-to-day management, administration and operation of the Group are delegated to senior management. The Board regularly reviews the functions and responsibilities delegated. The management needs to obtain the approval of the Board prior to entering into any substantial transaction.

CORPORATE GOVERNANCE FUNCTIONS

The Board confirms that corporate governance should be a joint responsibility of the Directors and their corporate governance functions include:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;
(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors of the Company;
(d) to develop and review the Company's policies and practices on corporate governance, and to recommend their opinions and report related affairs to the Board;
(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
(f) to review and monitor the Company's compliance with the Company's reporting policies.

BOARD COMMITTEES

Audit Committee

The Audit Committee is composed of three members, namely Mr. TANG Kwai Chang (鄧貴彰) (Chairman), Mr. CURWEN Peter D and Mr. CHAN Wing Yuen Hubert (陳永源), all of whom are independent non-executive Directors.

The main duties of the Audit Committee are as follows:

1. be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

2. review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

4. where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view;

5. monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:—

   (i) any changes in accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit;

   (iv) the going concern assumptions and any qualifications;

   (v) compliance with accounting standards; and

   (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.

6. regarding (5) above: —

   (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and

   (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

7. review the systems on financial controls of the Company, and unless expressly addressed by a separate Board risk committee, or by the Board itself, review the Company's risk management and internal control systems;

8. discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

9. consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

10. where an internal audit function exists, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness;

11. review the financial and accounting policies and practices of the Company and its subsidiaries;

12. review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

13. ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

14. review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

15. act as the key representative body for overseeing the Company's relations with the external auditor;

16. report to the Board on the matters set out herein;

17. establish a whistleblowing policy and system for employees and those who deal with the Company to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company; and

18. consider other topics, as defined by the Board.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the Relevant Period, the Audit Committee held one meeting to discuss and consider the following:

- Review of the interim results of the Company and its subsidiaries for the six months ended June 30, 2017;

- Review of the financial reporting systems, compliance procedures, internal controls (including the adequacy of the resources, qualifications, training courses and budget for the employees of the accounting and financial reporting department of the Company), risk management systems and procedures, and re-appointment of external auditor. The Board did not deviate from any recommendation made by the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

The attendance of each member of the Audit Committee at the Audit Committee meeting is set out in the following table:

Name	Audit Committee meetings attended/held
TANG Kwai Chang (鄧貴彰)	1/1
CURWEN Peter D	1/1
CHAN Wing Yuen Hubert (陳永源)	1/1

Nomination Committee

The Nomination Committee is composed of three members, namely two independent non-executive Directors, Mr. CHAN Wing Yuen Hubert (陳永源) (Chairman) and Mr. CURWEN Peter D, and one executive Director, Mr. LU Sung-Ching (盧松青).

The main duties of the Nomination Committee are as follows:

1. review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy ;

2. formulate a policy of selection and nomination of directors and the procedures for the sourcing of suitably qualified director for consideration of the Board and implement such plan and procedures approved;

3. identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

4. ensure sufficient biographical details of nominated candidates are provided to the Board and Shareholders to enable them to make a decision regarding selection of the Board members;

5. assess the independence of independent non-executive Directors;

6. make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive; and

7. conform to and abide by any requirement, direction and regulation that may be prescribed by the Board or contained in the constitutional documents of the Company or imposed by the Listing Rules or applicable laws.

The Nominating Committee assesses candidates or incumbents on the basis of integrity, experience, skills and time and effort devoted in the performance of their duties. The recommendations of the Nominating Committee will then be submitted to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

As the Company was listed on the Stock Exchange on July 13, 2017, no meeting was held by the Nomination Committee during the Relevant Period.

Remuneration Committee

The Remuneration Committee is composed of three members, namely two independent non-executive Directors, Mr. CURWEN Peter D (Chairman) and Mr. TANG Kwai Chang (鄧貴彰), and one non-executive Director, Dr. CHEN Ga-Lane (陳杰良).

The main duties of the Remuneration Committee are as follows:

1. make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. determine the policy for the remuneration of executive Directors, assess performance of executive Directors and approve the terms of executive Directors' service contracts;

3. review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. either: (i) determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or (ii) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

5. make recommendations to the Board on the remuneration of non-executive Directors;

6. consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

7. review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

8. review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

9. ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

During the Relevant Period, the Remuneration Committee held two meetings to discuss and consider the following:

- assessed the performance of the Directors and senior management;

- reviewed and approved the remuneration for the Directors and senior management including terms of the letters of appointment;

- reviewed the remuneration policy and made recommendations to the Board; and

- reviewed the Company's adoption of the Share Option Scheme and made recommendations to the Board.

The attendance of each member of the Remuneration Committee at the Remuneration Committee meetings is set out in the following table:

Name	Remuneration Committee meetings attended/held
CURWEN Peter D	2/2
CHEN Ga-Lane (陳杰良)	2/2
TANG Kwai Chang (鄧貴彰)	2/2

Senior Management's Remuneration

For the year ended December 31, 2017, the remuneration by band of members of the senior management of the Company (including Mr. LIN Chin-Tsun Lin (林金村), Mr. CHENG Lee-Ming (鄭禮明), Dr. WU Li-Chun (吳立羣) and Ms. EZEDINLO Maryam, whose biographies are set out on page 20 of this Annual Report, as well as Mr. HO Yu-Ming (何有明) and Mr. LAI Ching-Ho (賴清河), who were no longer with the Group as at the Latest Practicable Date and whose biographies were set out in the section headed "Directors and Senior Management — Senior Management" in the Prospectus) is set out below:

Remuneration band	Number of individuals
US$1 – US$100,000	3
US$100,001 – US$200,000	2
US$800,001 – US$900,000	1

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2017, to truly and fairly reflect the situation of the Company and the Group and the results and cash flows of the Group.

The management of the Company provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial statements of the Company which was put to the Board for approval. The Company has provided monthly updates on the performance and prospects of the Company to all members of the Board.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The auditor's responsibilities for the audit of the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 50 to 54 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control of the Company, and it continuously monitors and reviews the effectiveness of their implementation. A defined management structure with specified limits of authority and responsibilities is developed for promoting the effectiveness of operations, ensuring the reliability of financial reporting, complying with applicable laws, rules and regulations, and safeguarding assets of the Company.

Characteristics of Risk Management and Internal Control Systems

The Company has been equipped with sufficient resources, qualified and experienced staff, abundant training courses and relevant budgets for establishing the risk management and internal control systems, which includes the Board, the Audit Committee, Internal Audit department, the Company's management, and all functional departments of the organization. All functional departments are responsible for identifying, reporting and preliminary management of risks, and execute the risk management work flows and work with the Internal Audit department to initiate various risk management work. The Internal Audit department and the Company's management are responsible for the overall organization, coordination and planning of risk management work, and monitor the performance of the functional departments. The Audit Committee and the Board are responsible for monitoring the work of Internal Audit department, the Company's management and all functional departments. As the highest decision-making body of the Company's risk management and internal control systems, the Board shall take ultimate responsibility for the sound and effective implementation of the Company's risk management and internal control systems and be responsible for reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and only provide reasonable and not absolute assurance against material misstatement or loss.

Work Carried out and Reviewed of Risk Management and Internal Control

The Company conducts annual review of the effectiveness of the risk management and internal control systems and evaluates all the key monitoring aspects, including financial, operational, compliance and risk management.

Internal audits carried out by the Internal Audit department with the assistance from the external consultants, ensure that the controls are carried out properly and functioning effectively according to the intended objectives. The results of the internal audits and reviews are reported to the Board and the Audit Committee at least once a year. In 2017, based upon the overall business objectives, the Company sorted out and identified the possible risks from four aspects namely strategic, marketing, operational and financial, which formed the basis of the risk management framework. The Internal Audit department discussed with all the responsible departments to analyze and evaluate the risks identified, submitted the assessment and mitigation controls to be taken for major risks to the Company's management for review, and then to the Audit Committee and the Directors for discussion and approval. The Board has reviewed the effectiveness of the risk management and internal control systems and confirmed that such systems are effective during the Relevant Period, and there are no significant monitoring errors or control weaknesses identified.

THE PROCESSING AND PUBLISHING OF INSIDE INFORMATION

The Company has established the mechanism of inside information processing and publication. Company secretary and Legal department are authorized to act as the responsible authority for inside information processing. After all the inside information has been reviewed by the company secretary and Legal department, the Company judges whether it must be reviewed by the Chairman or the Board. The matters, which do not require the approval of the Board, would be disclosed after the company secretary's and the Chairman of the Board's approvals. For matters subject to approval by the Board and/or general meeting of Shareholders, information would be disclosed after performing the corresponding review and approval in accordance with the Articles of Association and relevant rules of procedure.

AUDITOR'S REMUNERATION

The approximate remuneration of the auditors for their audit and non-audit services provided to the Company during the Relevant Period is set out in the following table:

Services rendered	Amount (US$)
Audit services	750,000
Total	**750,000**

JOINT COMPANY SECRETARIES

Mr. YANG Tsung-Han (楊宗翰) is one of the joint company secretaries of the Company, who is responsible for advising the Board on corporate governance matters and ensuring the Company's compliance with the policies and procedures of the Board, applicable laws, rules and regulations.

To maintain good corporate governance and ensure compliance with the Listing Rules and the applicable laws of Hong Kong, the Company has also appointed Ms. NG Sau Mei (伍秀薇), a senior manager of TMF Hong Kong Limited (a supplier of providing corporate secretarial services), to act as anther joint company secretary and to provide assistance to Mr. Yang for the performance of his duties as a company secretary of the Company, and her main contact person in our Company is Mr. Yang.

During the year ended December 31, 2017, Mr. Yang and Ms. Ng have taken no less than 15 hours of relevant professional training in compliance with the requirements of Rule 3.29 of the Listing Rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with our Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of timely and non-selective disclosure of corporate information which enables Shareholders and investors to make properly informed investment decisions. Investor relations website is updated on a timely basis to ensure that investors are able to have access to the Company's information, latest news and reports.

To promote effective communication, the Company adopts the shareholders communication policy to establish mutual relationship and communication between the Company and Shareholders, and maintains a website (http://www.fit-foxconn.com), where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

Separate resolutions are proposed at general meetings for each substantially separate issue, including election of Directors. Poll voting has been adopted for decision-making at Shareholders' meeting. Details of poll voting procedures are included in the circular dispatched to the Shareholders. The circular also includes relevant details of proposed resolutions and/or biographies of the Directors standing for election. The results of the voting will be posted on the websites of the Company and the Stock Exchange in a timely manner after every general meeting of the Shareholders.

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION OF SHAREHOLDERS

Pursuant to the Articles of Association, the Shareholders may put forward proposals for consideration at the general meetings. Any one or more shareholder(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or any joint company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in accordance in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

For the matters regarding the proposal of a person to stand for election as a Director, please refer to the relevant procedures on the website of the Company.

Putting Forward Enquiries to the Board

For enquiries to the Board, Shareholders may contact the joint company secretaries at our place of business in Hong Kong at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong or by email to fit-ir@fit-foxconn.com. The Company will endeavor to respond to their queries in a timely manner. Shareholders may also make enquiries with the Directors at the general meetings of the Company.

In addition, the Shareholders can contact Computershare Hong Kong Investor Services Limited, the share registrar of the Company in Hong Kong, if they have any enquiries about their shareholdings and entitlements to dividend.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company adopted the revised and restated Memorandum and Articles of Association on June 19, 2017 with effect from the Listing Date. There are no changes in the Memorandum and Articles of Association of the Company during the Relevant Period.

Independent Auditor's Report

To the Shareholders of FIT Hon Teng Limited

(incorporated in Cayman Islands with limited liability under the name of Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as "FIT Hon Teng Limited")

Opinion

What we have audited

The consolidated financial statements of FIT Hon Teng Limited (incorporated in the Cayman Island with limited liability under the name of Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as "FIT Hon Teng Limited") (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 134, which comprise:

- the consolidated balance sheet as at December 31, 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matter

Key audit matter is those matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

The key audit matter identified in our audit is in relation to impairment of inventories.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of inventories	
Refer to notes 4 and 22 to the consolidated financial statements. At 31 December 2017, the Group held inventories of USD528,326,000, net of provision for impairment of inventories of approximately USD22,438,000. Management determines the lower of cost and net realisable value ("NRV") of inventories by considering the ageing profile, inventory obsolescence and estimated selling price and selling expenses of individual inventory items, and replacement cost of materials. The cost of inventories may not be recoverable if those inventories are aged and damaged, or become obsolete, or if their NRV have been declined. Management consistently applies a provisioning methodology for slow-moving inventories based on inventory ageing and makes specific provision for obsolete inventories. It also conducts periodic review on inventory obsolescence and review of holding period for individual inventory items. We focused on this area due to the magnitude of the inventories balance and provision for impairment for the year to the financial position and results of the Group, and the significant management's judgement and estimates involved in determining the provision for impairment of inventories.	We understood and validated the key control procedures performed by management, including its procedures in estimating the NRV of the inventories and conducting periodic review on inventory obsolescence. In respect of the management's NRV estimates, we tested on a sample basis, the NRV of selected finished goods, by comparing the selling price of sales invoices issued subsequent to the year end less estimated selling expenses, against the carrying values of these individual finished goods. We tested on a sample basis, the NRV of selected materials, by comparing the replacement cost subsequent to the year end, against the carrying values of these individual materials. We tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondences and invoices. We evaluated the estimates made by management to determine the provisioning methodology for slow-moving and obsolete inventories by discussion with management on the latest market trend and by assessing the accuracy of historical provision for impairment of inventories. Based on the procedures described, we consider management's judgement and estimates in relation to the provision for impairment of inventories, to be supportable by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 the Audit Committee 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.

The Audit Committee is 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. We report our opinion solely to you, as a body, 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

We communicate with the Audit Committee 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We also provide the Audit Committee 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 the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe those 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 this independent auditor's report is Chan Chiu Kong, Edmond.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong,
March 23, 2018

Consolidated Income Statement

Year ended December 31, 2017

	Note	2017 USD'000	2016 USD'000
Revenue	6	**3,398,803**	2,880,260
Cost of sales	9	**(2,829,359)**	(2,389,850)
Gross profit		**569,444**	490,410
Distribution costs and selling expenses	9	**(82,926)**	(87,277)
Administrative expenses	9	**(81,157)**	(68,102)
Research and development expenses	9	**(189,855)**	(168,749)
Other income	7	**19,224**	9,109
Other (losses)/gains – net	8	**(14,904)**	34,563
Operating profit		**219,826**	209,954
Finance income	11	**9,770**	5,530
Finance costs	11	**(4,757)**	(3,826)
Finance income — net	11	**5,013**	1,704
Share of results of associates	19	**(285)**	(59)
Profit before income tax		**224,554**	211,599
Income tax expense	12	**(44,068)**	(43,037)
Profit for the year		**180,486**	168,562
Profit attributable to:			
Owners of the Company		**180,490**	168,562
Non-controlling interests		**(4)**	—
		180,486	168,562
Earnings per share for profit attributable to owners of the Company during the year (expressed in US cents per share)			
Basic earnings per share	13	**2.95**	3.01
Diluted earnings per share	13	**2.81**	2.90

Consolidated Statement of Comprehensive Income

Year ended December 31, 2017

	2017 USD'000	2016 USD'000
Profit for the year	**180,486**	168,562
Other comprehensive income/(loss):		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**66,899**	(60,711)
Fair value change in available-for-sale financial assets	**(339)**	—
Transfer of fair value change in available-for-sale to consolidated income statement	**(590)**	—
Total other comprehensive income/(loss) for the year, net of tax	**65,970**	(60,711)
Total comprehensive income for the year	**246,456**	107,851
Total comprehensive income for the year attributable to:		
Owners of the Company	**246,460**	107,854
Non-controlling interests	**(4)**	(3)
	246,456	107,851

Consolidated Balance Sheet

As at December 31, 2017

	Note	2017 USD'000	2016 USD'000
ASSETS			
Non-current assets			
Land use rights	15	**21,850**	21,027
Property, plant and equipment	16	**675,883**	710,647
Intangible assets	17	**13,949**	431
Available-for-sale financial assets	20	**10,378**	5,857
Interests in associates	19	**6,546**	1,331
Deferred income tax assets	21	**28,238**	17,973
Deposits, prepayments and other receivables	24	**11,771**	14,114
		768,615	771,380
Current assets			
Inventories	22	**528,326**	368,481
Trade and other receivables	24	**1,061,902**	948,050
Derivative financial instruments	23	**5,569**	–
Short-term bank deposits	25	**48,668**	111,889
Cash and cash equivalents	25	**767,554**	414,899
		2,412,019	1,843,319
Total assets		**3,180,634**	2,614,699
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**131,521**	109,283
Reserves	27	**1,762,353**	1,174,668
		1,893,874	1,283,951
Non-controlling interests		**29**	33
Total equity		**1,893,903**	1,283,984

Consolidated Balance Sheet

As at December 31, 2017

	Note	2017 USD'000	2016 USD'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	21	**1,213**	1
Deposits received and other payables	29	**8,644**	1,346
		9,857	1,347
Current liabilities			
Trade and other payables	29	**935,710**	902,849
Bank borrowings	28	**296,127**	384,818
Current income tax liabilities		**45,037**	41,701
		1,276,874	1,329,368
Total liabilities		**1,286,731**	1,330,715
Total equity and liabilities		**3,180,634**	2,614,699

The financial statements on pages 55 to 134 were approved by the Board of Directors on March 23, 2018 and are signed on its behalf by:

Mr. Sung-ching Lu

Mr. Pochin Christopher Lu

Consolidated Statement of Changes in Equity

Year Ended December 31, 2017

		Attributable to owners of the Company						
	Note	Share capital USD'000	Share premium and capital reserve (note 27) USD'000	Other reserves (note 27) USD'000	Retained earnings USD'000	Sub-total USD'000	Non-controlling interests USD'000	Total equity USD'000
Balance as at January 1, 2016		109,283	156,786	126,961	793,491	1,186,521	36	1,186,557
Comprehensive income								
— Profit for the year		—	—	—	168,562	168,562	—	168,562
Other comprehensive income								
— Currency translation differences		—	—	(60,708)	—	(60,708)	(3)	(60,711)
Total comprehensive income for the year		—	—	(60,708)	168,562	107,854	(3)	107,851
Transactions with owners								
— Appropriation to statutory reserve		—	—	9,570	(9,570)	—	—	—
— Senior management and employees' share grant scheme	30	—	—	33,779	—	33,779	—	33,779
— Dividends paid	14			—	(44,203)	(44,203)	—	(44,203)
Total transactions with owners, recognized directly in equity		—	—	43,349	(53,773)	(10,424)	—	(10,424)
Balance at December 31, 2016		109,283	156,786	109,602	908,280	1,283,951	33	1,283,984

Consolidated Statement of Changes in Equity

Year End December 31, 2017

		Attributable to owners of the Company						
	Note	Share capital USD'000	Share premium and capital reserve (note 27) USD'000	Other reserves (note 27) USD'000	Retained earnings USD'000	Sub-total USD'000	Non-controlling interests USD'000	Total equity USD'000
Balance as at January 1, 2017		109,283	156,786	109,602	908,280	1,283,951	33	1,283,984
Comprehensive income								
— Profit for the year		–	–	–	180,490	180,490	(4)	180,486
Other comprehensive income								
— Currency translation differences		–	–	66,899	–	66,899	–	66,899
— Fair value change in available-for-sale financial assets		–	–	(339)	–	(339)	–	(339)
— Release of fair value change upon the reclassification of available-for-sale financial assets as associates		–	–	(590)	–	(590)	–	(590)
Total comprehensive income for the year		–	–	65,970	180,490	246,460	(4)	246,456
Transactions with owners								
— issuance of ordinary shares upon initial public offerings		22,238	371,294	–	–	393,532	–	393,532
— Shares issuance costs		–	(12,572)	–	–	(12,572)	–	(12,572)
— Appropriation to statutory reserve		–	–	4,030	(4,030)	–	–	–
— Senior management and employees' share grant scheme	30	–	–	23,056	–	23,056	–	23,056
— Dividends paid	14	–	–	–	(40,553)	(40,553)	–	(40,553)
Total transactions with owners, recognized directly in equity		22,238	358,722	27,086	(44,583)	363,463	–	363,463
Balance at December 31, 2017		131,521	515,508	202,658	1,044,187	1,893,874	29	1,893,903

Consolidated Statement of Cash Flows

Year Ended December 31, 2017

	Note	2017 USD'000	2016 USD'000
Cash flow from operating activities			
Cash generated from operations	31	**209,086**	277,797
Income tax paid		**(53,255)**	(37,263)
Net cash generated from operating activities		**155,831**	240,534
Cash flow from investing activities			
Payment for the purchase of property, plant and equipment	16	**(118,669)**	(198,246)
Net payment for acquisition of a subsidiary	33	**(2,115)**	—
Payment for the purchase of intangible assets	17	**(2,246)**	(378)
Proceeds from disposal of property, plant and equipment	31	**7,713**	10,182
Proceeds from disposal of intangible assets		**—**	135
Investments in associates		**(500)**	(500)
Decrease/(increase) in short-term bank deposits		**63,221**	(23,153)
Interest received		**9,770**	5,530
Investments in available-for-sale financial assets		**(9,500)**	(5,857)
Net cash used in investing activities		**(52,326)**	(212,287)
Cash flow from financing activities			
Proceeds from issuance of ordinary shares		**393,532**	—
Share issuance expenses		**(13,729)**	(4,040)
Proceeds from bank borrowings		**2,842,411**	1,738,523
Repayment for bank borrowings		**(2,961,411)**	(1,693,042)
Interest paid		**(4,757)**	(3,826)
Cash dividends paid	14	**(40,553)**	(44,203)
Net cash generated from/(used in) financing activities		**215,493**	(6,588)
Net increase in cash and cash equivalents		**318,998**	21,659
Cash and cash equivalents at beginning of the year		**414,899**	409,239
Exchange gains/(losses) on cash and cash equivalents		**33,657**	(15,999)
Cash and cash equivalents at end of the year	25	**767,554**	414,899

Notes to the Consolidated Financial Statements

1 General information

Foxconn Interconnect Technology Limited (the "Company", carrying on business in Hong Kong as "FIT Hon Teng Limited") was incorporated in the Cayman Islands as an exempted company with limited liability under the laws of the Cayman Islands.

The Group is principally engaged in the manufacture, sales and service of connectors, case, thermal module, wired and wireless communication products, optical products, power supply modules, and assemblies for use in the information technology, communications and automotive equipment, precision molding, automobile and consumer electronics industries.

The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The ultimate holding company of the Company is Hon Hai Precision Industry Co., Ltd. ("Hon Hai") and the immediate holding company of the Company is Foxconn (Far East) Limited ("Foxconn HK"), a wholly owned subsidiary of Hon Hai.

The Company's ordinary shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on July 13, 2017.

The consolidated financial statements is presented in United States Dollar ("USD") unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- available-for-sale financial assets, and
- financial assets and liabilities (including derivative instruments) measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New and amended standards adopted by the Group

The following new amendments to existing standards are mandatory for the first time for the financial year beginning on January 1, 2017 and are relevant to the Group's operations.

- Amendments to IAS 12 "Income Tax" clarify how to account for deferred tax assets related to debt instruments measured at fair value.

- Amendments to IAS 7 "Statement of Cash Flows" introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financial activities.

- Amendments to IFRS 12 "Disclosure of Interests in Other Entities" clarify that the disclosure requirements of HKFRS 12 are applicable to interests in entities classified as held for sale except for summarized financial information.

The adoption of the above new amendments starting from 1 January 2017 did not give rise to any impact on the Group's results of operations and financial position for the year ended 31 December 2017.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2017 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Amendment to IFRS 2 "Classification and measurement of share-based payment transactions" (effective for annual periods beginning on or after January 1, 2018). The amendment provides requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Group expects to adopt the amendment on January 1, 2018 and the impact is not expected to be material.

Amendments to IFRS 10 and IAS 28 "Sale or contribution of assets between an investor and its associate or joint venture" (effective date to be determined). The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after January 1, 2018). IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The application of IFRS 15 does not have any impact to the Group.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New standards and interpretations not yet adopted (continued)

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2018). IFRS 9 (2014) replaces the whole of IAS 39. IFRS 9 has three financial asset classification categories for investments in debt instruments: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortized cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. The adoption of IFRS 9 impacted the Group's classification of its available-for-sale financial assets but did not change the Group's measurement of financial assets and liabilities at fair value.

IFRS 16, "Leases" (effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted subject to the entity adopting IFRS 15 "Revenue from contracts with customers" at the same time) addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 "Leases", and related interpretations.

The Group is a lessee of various offices, factories and staff quarters which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in Note 2.25 under which operating lease payment is accounted for in the consolidated statements of comprehensive income when incurred and the Group's future operating lease commitments are not reflected in the consolidated balance sheets but are disclosed in Note 31. As of December 31, 2017, the aggregated future lease payments of the Group under operating leases was USD36,349,000. IFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheets. In the consolidated income statement, leases will be recognized in the future as capital expenditure on the purchase side and will no longer be recorded as an operating expenses. As a result, the operating expenses under otherwise identical circumstances will decrease, with depreciation and amortization and the interest expense will increase. The new standard will impact both the consolidated balance sheet and related ratios (gearing ratio), the impact is not expected to be material. The management of the Group expects the adoption of IFRS 16 would result in recognition of right of use assets and lease liabilities in the consolidated balance sheet.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New standards and interpretations not yet adopted (continued)

The new standard is not expected to apply until the financial year ending December 31, 2019.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the polices adopted by the Group.

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.2 Separate financial information

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's interests in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "share of profits of associates" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

2 Summary of significant accounting policies (continued)

2.3 Associates (continued)

2.3.1 Investments in associates achieved in stages

The cost of associates acquired in stages, except for the change from an associate to a joint venture; is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when it becomes associate. A gain or loss on re-measurement of the previously held interest is taken to the consolidated income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interest is also taken to the consolidated income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Group that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in USD which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'Other (losses)/gains-net'.

2 Summary of significant accounting policies (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

2.6 Land use rights

Land use rights are upfront payments to acquire long-term interests in the usage of land and they are accounted for as operating leases. They are carried at cost less accumulated amortization and accumulated impairment losses, if any (Note 2.9). Amortization is calculated using the straight-line method to allocate the cost of land use rights over the remaining period of each of the leases.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

2 Summary of significant accounting policies (continued)

2.7 Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	Shorter of 6 to 51 years or remaining lease term
Machinery and equipment	2 to 9 years
Furniture, fixtures and office equipment	2 to 6 years
Molds and molding equipment	1 to 6 years
Leasehold Improvement	2 to 6 years

Construction in-progress represents property, plant and equipment under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for the intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within "Other (losses)/gains — net" in the consolidated income statement.

2.8 Intangible assets

(a) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into usage. Computer software is carried at cost less accumulated amortization and impairment, if any (Note 2.9). These costs are amortized over their estimated useful lives of 3 years.

(b) Trademarks and licenses

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives of 3 years.

2 Summary of significant accounting policies (continued)

2.8 Intangible assets (continued)

(c) Technical knowhow

Technical knowhow is stated at cost less accumulated amortization and any accumulated impairment losses. Amortization for technical knowhow with finite useful life is recognized on a straight-line basis over the estimated useful life of 7 years. The estimated useful life and amortization method are reviewed at the consolidated balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis.

(d) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.9 Impairment of non-financial assets

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets except for goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (continued)

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "short-term bank deposits" and "cash and cash equivalents".

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement as "gains and losses from investment securities".

Dividends on available-for-sale equity instruments are recognized in the consolidated income statement as part of other income when the group's right to receive payments is established.

2 Summary of significant accounting policies (continued)

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Impairment of financial assets

2.12.1 Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2 Summary of significant accounting policies (continued)

2.12 Impairment of financial assets (continued)

2.12.2 Assets classified as available-for-sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.13 Derivative financial instruments

Derivative financial instruments refer to the forward foreign exchange contracts. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. The Group uses these currency forward contracts to mitigate exposure to changes in foreign exchange rate. These forward foreign exchange contracts are held for "economic hedge", which do not qualify for hedge accounting.

Changes in the fair value of all derivative instruments are recognized immediately in the consolidated income statement within 'Other (losses)/gains — net'.

2.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2 Summary of significant accounting policies (continued)

2.16 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within twelve months after the reporting period (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.19 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fees are deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fees are capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 Borrowing costs

General and specific 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.

All other borrowing costs are recognized in consolidated income statement in the period in which they are incurred.

2 Summary of significant accounting policies (continued)

2.21 Current and deferred income tax

The tax expense comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.21.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.21.2 Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, and the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable consolidated income statement. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

2 Summary of significant accounting policies (continued)

2.21 Current and deferred income tax (continued)

2.21.3 Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

2.22.1 Pension obligations

The full-time employees of the Group in the People's Republic of China (the "PRC") are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group. The non-PRC employees are covered by other defined contribution pension plans sponsored by local government.

The contributions are recognized as employee benefit expenses when they are due.

2.22.2 Housing funds, medical insurances and other social insurances

The PRC employees of the Group are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period, and recognized as employee benefit expense when they are due.

2.22.3 Employee leaves entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2 Summary of significant accounting policies (continued)

2.23 Equity-settled Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

2.24 Provisions and contingent liabilities

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 Summary of significant accounting policies (continued)

2.24 Provisions and contingent liabilities (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statements on a straight-line basis over the period of the lease.

2.26 Revenue recognition

2.26.1 Sales of products

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns, rebates, and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2.26.2 Sales of scrap materials

Sale proceeds of scrap materials arising from production are taken into revenue in the year of sale.

2.26.3 Sales of service

Service income is recognized when services are provided.

2.26.4 Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

2.26.5 Rental income from operating lease

Rental income from operating lease is recognized in the consolidated income statements on a straight-line basis over the term of the lease.

2 Summary of significant accounting policies (continued)

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.28 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight- line basis over the expected lives of the related assets.

2.29 Research and development cost

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

3.1 Market risk

(a) Foreign exchange risk

The Group operates in various locations. Most of the transactions for the Taiwan reporting entity are denominated in United States Dollar ("USD") and New Taiwan Dollar ("NTD"), whereas that for the PRC reporting entities are denominated in Renminbi ("RMB") and USD. Moreover, certain cash and cash equivalents, short-term bank deposits, trade and other receivables and trade and other payables are denominated in foreign currencies, which expose the Group to foreign exchange risk, primarily with respect of USD, NTD and RMB. The Group manages its foreign exchange risks by performing regular reviews and arranges hedges against foreign exchange exposures when considered necessary.

	2017	2016
	USD'000	USD'000
Net profit increase/(decrease)		
NTD against USD		
— Strengthened 5%	**5,959**	9,681
— Weakened 5%	**(5,959)**	9,681
Net profit increase/(decrease)		
RMB against USD		
— Strengthened 5%	**1,774**	1,443
— Weakened 5%	**(1,774)**	(1,443)

(b) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from bank borrowings with variable rates, which expose the Group to cash flow interest rate risk. During the year ended December 31, 2017 and 2016, the Group's borrowings at variable rate were mainly denominated in RMB, TWD and USD.

As at December 31, 2017, if the interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the profit before tax for the year would have been approximately USD2,961,000 lower/higher (2016: USD3,848,000 lower/higher), mainly as a result of higher/lower interest expense on floating-rate borrowings.

3 Financial risk management (continued)

3.2 Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and short term bank deposits, as well as credit exposures to customers, including outstanding receivables.

Credit risk is managed on a group basis. Cash and bank deposits were deposited in banks and financial institutions rated by independently parties with high credit rating.

The Group assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by customers is regularly monitored by line management. Please refer to Note 23 for aging analysis. Management make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

3.3 Liquidity risk

The Group monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Group expects to fund the future cash flow needs through internally generated cash flows from operations, and borrowings from financial institutions.

(i) Financing arrangements

The group had access to the following borrowing facilities at the end of the reporting period:

	2017 **USD'000**	2016 USD'000
Floating rate		
Expiring within one year (bank overdraft and bill facility)	**296,127**	384,818

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

(ii) Maturities of financial liabilities

The tables below analyzes the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months USD'000	6 – 12 months USD'000	Between 1 and 2 years USD'000	Between 2 and 5 years USD'000	Total contractual cash flows USD'000	Carrying amount (assets)/ liabilities USD'000
At December 31, 2017						
Trade payables and other payables	**848,088**	**—**	**—**	**—**	**848,088**	**848,088**
Borrowings	**296,956**	**—**	**—**	**—**	**296,956**	**296,956**
At December 31, 2016						
Trade payables and other payables	823,698	—	—	—	823,698	823,698
Borrowings	384,818	—	—	—	384,818	384,818

3.4 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group's monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts are calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debts.

3 Financial risk management (continued)

3.4 Capital risk management (continued)

The gearing ratios at December 31, 2017 and 2016 were as follows:

	2017 USD'000	2016 USD'000
Borrowings (Note 28)	**296,127**	384,818
Less: cash and cash equivalents (Note 25)	**(767,554)**	(414,899)
Net surplus cash	**(471,427)**	(30,081)
Total equity	**1,893,903**	1,283,984
Net debts	**—**	—
Total capital	**1,893,903**	1,283,984
Gearing ratio	**Not applicable**	Not applicable

3.5 Fair value estimation

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, short-term bank deposits, trade and other receivables, and the Group's current financial liabilities, including trade and other payables and borrowings, approximate their fair values due to their short maturities. The nominal value less estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The table below analyses the group's financial instruments carried at fair values as at December 31, 2017 and 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quotes prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market date (that is, unobservable inputs) (level 3).

3 Financial risk management (continued)

3.5 Fair value estimation (continued)

	2016			
	Level 1	Level 2	Level 3	Total
	USD'000	USD'000	USD'000	USD'000
Assets				
Available-for-sale financial assets				
Available-for-sale financial assets-equity securities (Note 20)	—	—	5,857	5,857
Total assets	—	—	5,857	5,857

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**
Assets				
Derivative financial instruments (Note 23)	**—**	**5,569**	**—**	**5,569**
Available-for-sale financial assets-equity securities (Note 20)	**—**	**—**	**10,378**	**10,378**
Total assets	**—**	**5,569**	**10,378**	**15,947**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price for available-for-sale financial assets used by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no transfers between levels 1, 2 and 3 during the year.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

4.1 Estimated useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. The estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

4.2 Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. The estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realized. The identification of write-downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed. Management reassesses these estimates at each balance sheet date.

4.3 Current and deferred income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

4 Critical accounting estimates and judgments (continued)

4.3 Current and deferred income taxes (continued)

Deferred income tax liabilities have not been established for the withholding taxation that would be payable on the undistributed profits of certain subsidiaries which were under certain jurisdictions as the directors consider that the timing of the reversal of related temporary differences can be controlled and that is probable that the temporary difference will not reverse in the foreseeable future (Note 21).

4.4 Impairment of receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgments and estimates. Management reassesses the provisions at each balance sheet date.

5 Segment information

The Group operates as a single operating segment. The single operating segment is reported in a manner consistent with the internal reporting provided to the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that make strategic decisions. CODM assesses the performance of the operating segment based on a measure of operating profit.

The Group is principally engaged in manufacture, sales and service of connectors, case, thermal module, wired/wireless communication products, optical products, power supply modules, and assemblies for use in the Information Technology ("IT"), communications, automotive equipment, precision molding, automobile, and consumer electronics industries. The Group carries out its manufacturing process mainly through the production complexes located in the PRC and Vietnam during the year , while the sales and services of the Group are principally conducted in Taiwan, Singapore, the PRC and the United States of America.

5 Segment information (continued)

During the year, revenue by geographical areas is as follows:

	2017 USD'000	2016 USD'000
Mainland China	**1,278,511**	1,074,700
United States of America	**1,244,907**	942,031
Taiwan	**236,093**	284,054
Singapore	**142,689**	139,989
Hong Kong	**161,602**	140,899
Others	**335,001**	298,587
	3,398,803	2,880,260

The analysis of revenue by geographical segment is based on the location of major operation of customers.

The geographical analysis of the Group's non-current assets (other than intangible assets, available-for-sale financial assets and deferred income tax assets) is as follows:

	2017 USD'000	2016 USD'000
Mainland China	**582,585**	619,772
Singapore	**59,412**	49,308
Vietnam	**50,427**	62,805
Taiwan	**4,350**	7,526
United States of America	**15,042**	5,901
Others	**4,234**	1,807
	716,050	747,119

The measures of assets and liabilities have not been disclosed for each reportable segment as they are not regularly provided to the chief operating decision-maker for their review.

5 Segment information (continued)

During the year ended December 31, 2017, there were two customers (2016: two customers), respectively, which individually contributed over 10% of the Group's total revenue. During the year, the revenue contributed from these customers are as follows:

	2017 USD'000	2016 USD'000
Customer A	**986,911**	689,001
Customer B	**796,976**	673,355

A major portion of the Group's sales is made to a number of customers which are contract manufacturers nominated by a limited number of brand companies; while the others are sales to a number of distributors, retailers, brand companies and trading companies.

6 Revenue

	2017 USD'000	2016 USD'000
Sales of goods	**3,320,974**	2,824,819
Provision of services	**27,195**	15,694
Sales of scrap materials	**50,634**	39,747
	3,398,803	2,880,260

7 Other income

	2017 USD'000	2016 USD'000
Rental income from properties	**6,034**	2,075
Government grant income	**8,523**	2,543
Others	**4,667**	4,491
	19,224	9,109

8 Other (losses)/gains – net

	2017 USD'000	2016 USD'000
Net exchange (losses)/gains	**(26,231)**	34,522
Fair value gains on forward contracts	**8,431**	330
Gains on disposal of property, plant and equipment	**1,244**	29
Fair value gain on available-for-sale financial assets	**590**	—
Others	**1,062**	(318)
	(14,904)	34,563

9 Expenses by nature

	2017 USD'000	2016 USD'000
Cost of inventories	**1,794,817**	1,560,590
Employee benefit expenses (Note 10)	**566,864**	433,084
Subcontracting expenses	**253,486**	228,235
Depreciation of property, plant and equipment (Note 16)	**181,519**	148,495
Moulding and consumables	**116,755**	117,945
Utilities	**50,072**	48,644
Professional expenses	**25,972**	20,537
Delivery expenses	**29,166**	26,644
Operating lease expenses	**19,858**	14,720
Listing expenses	**3,341**	5,786
Impairment of trade receivables	**1,597**	652
Amortization of intangible assets (Note 17)	**1,572**	3,021
Auditor's remuneration	**750**	242
Amortization of land use rights (Note 15)	**575**	798
Others	**136,953**	104,585
Total cost of sales, distribution cost and selling expenses, administrative expenses and research and development expenses	**3,183,297**	2,713,978

10 Employee benefit expenses (including directors and senior management's emoluments)

	2017 **USD'000**	2016 USD'000
Salaries, wages and bonuses	**490,773**	350,661
Pension, housing fund, medical insurance and other social insurances	**33,063**	30,703
Share-based payment expenses (Note 30)	**23,056**	33,779
Staff welfare and other benefits	**19,972**	17,941
	566,864	433,084

(a) Directors and chief executive's emoluments

The remuneration of each director of the Company paid/payable by the Group for the year are set out as follows:

	Director's fee USD'000	Salaries, wages and bonuses USD'000	Pension, housing fund, medical insurance and other social insurances USD'000	Share-based payment expenses USD'000	Total USD'000
For the year ended December 31, 2016					
Executive Director					
Lu, Sungching	—	3,152	9	22,442	25,603
Lu, Pochin Christopher	111	500	—	—	611
William Ralph Gillespie (Note 2)	541	257	35	424	1,257
Non-Executive Director					
Chen, Galane (Note 1)	—	—	—	—	—
Independent Non-Executive Director					
CURWEN Peter D (Note 3)	12	—	—	—	12
TANG Kwai Chang (Note 3)	12	—	—	—	12
CHAN, Wing Yuen Hubert (Note 3)	12	—	—	—	12
	688	3,909	44	22,866	27,507

10 Employee benefit expenses (including directors and senior management's emoluments) (continued)

(a) Directors and chief executive's emoluments (continued)

	Director's fee USD'000	Salaries, wages and bonuses USD'000	Pension, housing fund, medical insurance and other social insurances USD'000	Share-based payment expenses USD'000	Total USD'000
For the year ended December 31, 2017					
Executive Director					
Lu, Sungching	—	3,341	8	17,595	20,944
Lu, Pochin Christopher	458	1,500	—	—	1,958
William Ralph Gillespie (Note 2)	—	1,112	36	—	1,148
Non-Executive Director					
Chen, Galane (Note 1)	—	—	—	—	—
Independent Non-Executive Director					
CURWEN Peter D (Note 3)	75	—	—	—	75
TANG Kwai Chang (Note 3)	75	—	—	—	75
CHAN, Wing Yuen Hubert (Note 3)	75	—	—	—	75
	683	5,953	44	17,595	24,275

The remuneration shown above represents remuneration received and receivable from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the year. No directors waived or agreed to waive any emoluments during the year (2016: Nil).

Note 1: Appointed on April 1, 2016. During the year ended December 31, 2017 and 2016, the emoluments of a director of the Company, Chen Galane, was borne by Hon Hai Group.

Note 2: Appointed on June 28, 2016.

Note 3: Appointed on November 4, 2016.

10 Employee benefit expenses (including directors and senior management's emoluments) (continued)

(b) Directors' retirement benefits

During the years ended December 31, 2017 and 2016, no retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking.

(c) Directors' termination benefits

No payment was made to directors as compensation for early termination of the appointment during the years ended December 31, 2017 and 2016.

(d) Consideration provided to third parties for making available directors' services

No payment was made to third parties for making available directors' services during the years ended December 31, 2017 and 2016.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the years ended December 31, 2017 and 2016.

(f) Directors' material interests in transactions, arrangements or contracts

There are no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended December 31, 2017 and 2016.

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two and three director for the years ended December 31, 2017 and 2016 respectively, and their emoluments are reflected in the analysis shown in Note 10(a). The emoluments payable to the remaining three and three individuals during the years ended December 31, 2017 and 2016 are as follows:

	2017 **USD'000**	2016 USD'000
Salaries, wages and bonuses	**1,569**	1,512
Pension, housing fund, medical insurance and other social insurances	**116**	101
Share-based payment expenses (Note 30)	**—**	799
	1,685	2,412

10 Employee benefit expenses (including directors and senior management's emoluments) (continued)

(g) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	2017	2016
Emoluments bands:		
USD500,001 to USD600,000	—	1
USD600,001 to USD700,000	—	1
USD800,001 to USD900,000	2	—
USD1,100,001 to USD1,200,000	—	1
	2	3

During the years ended December 31, 2017 and 2016, neither directors nor other members of the five highest paid individuals received any emoluments from the Group as an inducement to join, upon joining the Group, to leave the Group or as compensation for loss of office.

11 Finance income – net

	2017 USD'000	2016 USD'000
Finance income:		
— Interest income on short-term bank deposits and cash equivalents	9,770	5,530
	9,770	5,530
Finance costs:		
— Interest expense on loans from related parties	—	(51)
— Interest expense on bank borrowings	(4,757)	(3,775)
	(4,757)	(3,826)
Finance income – net	5,013	1,704

12 Income tax expense

The amounts of income tax expense charged to the consolidated income statements represent:

	2017 USD'000	2016 USD'000
Current income tax		
— Current tax on profits for the year	52,432	43,804
— Under/(over) provision in prior years	689	(206)
Deferred income tax (Note 21)	(9,053)	(561)
Income tax expense	44,068	43,037

(a) PRC corporate income tax

The corporate income tax ("CIT") is calculated based on the statutory profit of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations. The standard PRC CIT rate is 25% (2016: 25%).

Two subsidiaries of the Group, Fu Ding Shenzhen, and Foxconn Kunshan are qualified for new/high-technology enterprises status and enjoyed preferential income tax rate of 15% (2016:15%) during the year.

Chongqing Hong Teng Technology Co., Ltd. is qualified for a preferential income tax rate of 15% under Notice of the Ministry of Finance, The General Administration of Customs and the State Administration of Taxation on the Taxation Policies for Deepening the Implementation of the Western Development Strategy during the year ended December 31, 2017 and 2016.

(b) Taiwan profit-seeking enterprise income tax

Taiwan profit-seeking enterprise income tax has been provided for at the rate of 17% (2016: 17%) on the estimated taxable income during the year.

(c) Singapore corporate income tax

Singapore corporate income tax is calculated at the rate of 17% (2016: 17%) on the chargeable income of the subsidiaries incorporated in Singapore in accordance with Singapore Income Tax Act during the year.

(d) Vietnam corporate income tax

The current tax regulations allow the subsidiary incorporated in Vietnam to be exempted from income tax for 2 years starting from the first year with taxable profit and is entitled to a 50% reduction in income tax for the next 4 succeeding years. The income tax regulations also specify that if the subsidiary does not generate any taxable profit in three consecutive years from the first year it generates revenue, the above tax exemption period will start in the fourth year despite the fact that no taxable profit has been made.

12 Income tax expense (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the weighted average tax rates applicable to profits during the year is as follows:

	2017 USD'000	2016 USD'000
Profit before income tax	**224,554**	211,599
Tax calculated at domestic tax rate applicable to profits in the respective countries	**44,991**	45,021
Tax effect of:		
Expenses not deductible for tax purpose	**270**	143
Income not subject to income tax	**—**	(1,921)
Tax losses not recognized	**1,470**	—
Under/(over) provision in prior years	**689**	(206)
Tax concession	**(3,352)**	—
	44,068	43,037

13 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the years ended December 31, 2017 and 2016.

	2017	2016
Net profit attributable to the owners of the Company (USD'000)	**180,486**	168,562
Weighted average number of ordinary shares in issue (in thousands) (Note)	**6,117,712**	5,595,286
Basic earnings per share (US cents)	**2.95**	3.01

Note:

Pursuant to a shareholder's resolution passed on November 3, 2016, every then existing ordinary share of the Company was split into 16 shares. The number of ordinary shares outstanding increased from 349,705,368 shares to 5,595,285,888 shares. Such increase has been adjusted retrospectively in the calculation of earnings per share as if the new number of shares was effective since the beginning of the year ended December 31, 2016.

13 Earnings per share (continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the years ended December 31, 2017 and 2016, the Group has two categories of dilutive potential ordinary shares, respectively.

For the senior management and employees' share grant schemes, the number of shares calculated as above is compared with the number of shares that would have been outstanding assuming the completion of the share issue to the grantees.

	2017	2016
Net profit attributable to the owners of the Company (USD'000)	**180,486**	168,562
Weighted average number of ordinary shares in issue (in thousands)	**6,117,712**	5,595,286
Adjustments for:		
— impact of the senior management and employees' share grant schemes (in thousands)	**314,158**	224,275
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**6,431,870**	5,819,561
Diluted earnings per share (US cents)	**2.81**	2.90

14 Dividends

	2017 USD'000	2016 USD'000
Dividends	**40,553**	44,203

The dividend of HK$ 0.047 per share in respect of the net profit for the year ended December 31, 2016, amounting to a total dividend of USD40,553,000 was approved at the Company's extraordinary general meeting on October 27, 2017. Such dividends were paid to shareholders in 2017.

A final dividend in respect of the financial year ended December 31, 2017 of HK$0.055 per share, amounting to a total dividend of HK$370,362,000, approximately US$47,482,000, is to be proposed at the forthcoming Annual General Meeting. The amount of 2017 proposed final dividend is based on 6,733,854,888 shares in issue as at March 23, 2018. These financial statements do not reflect this dividend payable.

15 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book value is analyzed as follows:

	2017 USD'000	2016 USD'000
At beginning of the year	**21,027**	22,094
Amortization of land use rights	**(575)**	(798)
Currencies translation difference	**1,398**	(269)
At end of the year	**21,850**	21,027

16 Property, plant and equipment

	Buildings USD'000	Machinery and equipment USD'000	Furniture, fixtures and office equipment USD'000	Molds and molding equipment USD'000	Leasehold Improvement USD'000	Construction in progress USD'000	Total USD'000
As at January 1, 2016							
Cost	490,118	621,734	174,397	33,822	—	67,602	1,387,673
Accumulated depreciation	(207,023)	(320,408)	(138,737)	(30,822)	—	—	(696,990)
Net book amount	283,095	301,326	35,660	3,000	—	67,602	690,683
Year ended December 31, 2016							
Opening net book amount	283,095	301,326	35,660	3,000	—	67,602	690,683
Transfers	1,139	10,764	5,240	38,031	16,641	(71,815)	—
Additions	1,625	64,240	33,408	19,433	—	104,013	222,719
Disposals	—	(6,043)	(2,885)	(855)	—	—	(9,783)
Depreciation	(29,297)	(73,041)	(25,460)	(20,146)	(551)	—	(148,495)
Currencies translation difference	(17,406)	(11,541)	(5,838)	(1,809)	(3,218)	(4,665)	(44,477)
Closing net book amount	239,156	285,705	40,125	37,654	12,872	95,135	710,647
As at December 31, 2016							
Cost	460,608	633,451	187,852	81,052	13,313	95,135	1,471,411
Accumulated depreciation	(221,452)	(347,746)	(147,727)	(43,398)	(441)	—	(760,764)
Net book amount	239,156	285,705	40,125	37,654	12,872	95,135	710,647

16 Property, plant and equipment (continued)

	Buildings USD'000	Machinery and equipment USD'000	Furniture, fixtures and office equipment USD'000	Molds and molding equipment USD'000	Leasehold Improvement USD'000	Construction in progress USD'000	Total USD'000
As at January 1, 2017							
Cost	460,608	633,451	187,852	81,052	13,313	95,135	1,471,411
Accumulated depreciation	(221,452)	(347,746)	(147,727)	(43,398)	(441)	—	(760,764)
Net book amount	239,156	285,705	40,125	37,654	12,872	95,135	710,647
Year ended December 31, 2017							
Opening net book amount	239,156	285,705	40,125	37,654	12,872	95,135	710,647
Transfers	340	10,748	4,060	51,455	2,241	(68,844)	—
Additions	5,981	28,946	18,904	5,035	—	56,383	115,249
Acquisition of subsidiary (note 33)	—	—	15	—	—	—	15
Disposals	(840)	(4,651)	(765)	(213)	—	—	(6,469)
Depreciation	(30,112)	(74,336)	(27,487)	(46,588)	(2,996)	—	(181,519)
Currencies translation difference	15,268	10,588	3,602	2,907	1,288	4,307	37,960
Closing net book amount	229,793	257,000	38,454	50,250	13,405	86,981	675,883
As at December 31, 2017							
Cost	499,010	686,992	213,762	143,994	16,885	86,981	1,647,624
Accumulated depreciation	(269,217)	(429,992)	(175,308)	(93,744)	(3,480)	—	(971,741)
Net book amount	229,793	257,000	38,454	50,250	13,405	86,981	675,883

16 Property, plant and equipment (continued)

Depreciation of property, plant and equipment has been charged to the consolidated income statement as follows:

	2017 USD'000	2016 USD'000
Cost of sales	**167,159**	132,644
Distribution costs and selling expenses	**198**	194
Administrative expenses	**3,302**	3,102
Research and development expenses	**10,860**	12,555
	181,519	148,495

17 Intangible assets

	Software USD'000	Licenses USD'000	Knowhow knowledge USD'000	Goodwill USD'000	Total USD'000
As at December 31, 2016					
Cost	561	8,852	—	—	9,413
Accumulated amortization	(231)	(6,007)	—	—	(6,238)
Net book amount	330	2,845	—	—	3,175
Year ended December 31, 2016					
Opening net book amount	330	2,845	—	—	3,175
Additions	378	—	—	—	378
Disposal	(135)	—	—	—	(135)
Amortization	(126)	(2,895)	—	—	(3,021)
Currencies translation difference	(16)	50	—	—	34
Closing net book amount	431	—	—	—	431
As at December 31, 2016					
Cost	804	8,852	—	—	9,656
Accumulated amortization	(373)	(8,852)	—	—	(9,225)
Net book amount	431	—	—	—	431

17 Intangible assets (continued)

	Software USD'000	Licenses USD'000	Knowhow knowledge USD'000	Goodwill USD'000	Total USD'000
As at December 31, 2017					
Cost	804	8,852	—	—	9,656
Accumulated amortization	(373)	(8,852)	—	—	(9,225)
Net book amount	431	—	—	—	431
Year ended December 31, 2017					
Opening net book amount	431	—	—	—	431
Additions	364	9,262	—	—	9,626
Acquisition of subsidiary (note 33)	—	—	2,098	3,074	5,172
Amortization	(164)	(1,408)	—	—	(1,572)
Currencies translation difference	13	279	—	—	292
Closing net book amount	644	8,133	2,098	3,074	13,949
As at December 31, 2017					
Cost	1,186	18,190	2,098	3,074	24,548
Accumulated amortization	(542)	(10,057)	—	—	(10,599)
Net book amount	644	8,133	2,098	3,074	13,949

Note:

During the year ended December 31, 2017, Hon Hai entered into patent license agreements with the Group pursuant to which certain patents were licensed to the Group at a consideration of USD9,262,000 for a term of seven years effective from January 1, 2017.

17 Intangible assets (continued)

Amortization of intangible assets has been charged to the consolidated income statements (Note 9) as follows:

	2017 USD'000	2016 USD'000
Cost of sales	**1,408**	2,947
Distribution costs and selling expenses	**—**	11
Administrative expense	**164**	14
Research and development expenses	**—**	49
	1,572	3,021

18 Interests in subsidiaries

The Company's subsidiaries at 31 December 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Company, and the proportion of ownership interests held equals the voting rights held by the Company. The country of incorporation or registration is also their principal place of business.

Movements of the Company's interests in subsidiaries were as follows:

	2017 USD'000	2016 USD'000
At beginning of the year	**960,941**	851,691
Capital injection to subsidiaries	**200,506**	109,250
At end of the year	**1,161,447**	960,941

18 Interests in subsidiaries (continued)

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest held by the Group 2017 %	Ownership interest held by the Group 2016 %	Ownership interest held by non-controlling interests 2017 %	Ownership interest held by non-controlling interests 2016 %
富士康(昆山)電腦接插件有限公司 ("Foxconn Computer Connectors (Kunshan) Co., Ltd")*	The PRC, limited liability company	Production of interconnect solutions and related products in the PRC	USD44,600,000	**100**	100	**–**	–
富士康電子工業發展(昆山)有限公司 ("Foxconn Electronics Industry Development (Kunshan) Co., Ltd.")*	The PRC, limited liability company	Production of interconnect solutions and related products in the PRC	USD124,000,000	**100**	100	**–**	–
富頂精密組件(深圳)有限公司 ("Fu Ding Precision Component (Shenzhen) Co., Ltd.")*	The PRC, limited liability company	Production of interconnect solutions and related products in the PRC	USD48,000,000	**100**	100	**–**	–
富鼎精密工業(鄭州)有限公司 ("Fu Ding Precision Industry (Zhengzhou) Co., Ltd.")*	The PRC, limited liability company	Production of interconnect solutions and related products in the PRC	USD40,000,000	**100**	100	**–**	–
淮安市富利通貿易有限公司 ("Huaian Fu Li Tong Trading Co., Ltd.")*	The PRC, limited liability company	Sale of interconnect solutions and related products in the PRC	RMB30,000,000	**100**	100	**–**	–
富譽電子科技(淮安)有限公司 ("Fu Yu Electronics Technology (Huaian) Co., Ltd.")*	The PRC, limited liability company	Production of interconnect solutions and related products in the PRC	USD296,200,000	**100**	100	**–**	–

18 Interests in subsidiaries (continued)

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/registered share capital	Ownership interest held by the Group 2017 %	2016 %	Ownership interest held by non-controlling interests 2017 %	2016 %
淮安安亞貿易有限公司 ("An Ya Trading (Huaian) Co., Ltd.")*	The PRC, limited liability company	Sale of interconnect solutions and related products in the PRC	RMB1,000,000	**100**	100	**–**	–
淮安鴻裕電子科技有限公司 ("Huaian Hong Yu Electronics Technology Co., Ltd.")*	The PRC, limited liability company	Sale of interconnect solutions and related products in the PRC	RMB10,000,000	**100**	100	**–**	–
淮安騰躍信息科技有限公司 ("Huaian Teng Yue Information Technology Co., Ltd.")*	The PRC, limited liability company	Structure cabling, installation and maintenance of intelligent control system in the PRC	RMB1,000,000	**80**	80	**20**	20
重慶市鴻騰科技有限公司 ("Chongqing Hong Teng Technology Co., Ltd.")*	The PRC, limited liability company	Production of interconnect solutions and related products in the PRC	USD3,000,000	**100**	100	**–**	–
富盟電子科技(菏澤)有限公司 ("Fu Meng Electronics Technology (Heze) CO., Ltd.")*	The PRC, limited liability company	Production of interconnect solutions and related products in the PRC	USD5,000,000	**100**	100	**–**	–
淮安富啟電子科技有限公司 ("Fu Qi Electronics Technology Co., Ltd")*	The PRC, limited liability company	Production of interconnect solutions and related products in the PRC (currently dormant)	RMB10,000,000	**100**	100	**–**	–
Foxconn Interconnect Technology Singapore Pte Ltd.	Singapore, limited liability company	Sale of interconnect solutions and related products in Singapore	872,389,961 ordinary shares of USD1 each as at 2016 and 922,389,961 ordinary shares of USD1 each as at 2016	**100**	100	**–**	–
昆山安亞鴻貿易有限公司 ("An Ya Hong Trading (Kunshan) Co., Ltd.")*	The PRC, limited liability company	Sale of interconnect solutions and related products in the PRC	RMB1,000,000	**100**	100	**–**	–
New Beyond Maximum Industrial Ltd.	Samoa, limited liability company	Consolidation and allocation of purchase orders in Samoa	USD1	**100**	100	**–**	–

18 Interests in subsidiaries (continued)

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/registered share capital	Ownership interest held by the Group 2017 %	Ownership interest held by the Group 2016 %	Ownership interest held by non-controlling interests 2017 %	Ownership interest held by non-controlling interests 2016 %
Foxconn Interconnect Technology (USA) Inc.	USA, limited liability company	Sale of interconnect solutions and related products in the USA	Limited by guarantee	**100**	100	**—**	—
FIT Electronic Inc.	USA, limited liability company	Sale, research and development of interconnect solutions and related products in the USA	USD500,000	**100**	100	**—**	—
In-Output Precision Industrial Ltd.	British Virgin Islands, limited liability company	Consolidation and allocation of purchase orders in British Virgin Islands	USD1	**100**	100	**—**	—
Grand Occasion International Ltd.	British Virgin Islands, limited liability company	Investment holding in British Virgin Islands	USD65,200,400	**100**	100	**—**	—
Best Gold Trading Ltd.	British Virgin Islands, limited liability company	Investment holding in British Virgin Islands	USD55,588,000	**100**	100	**—**	—
Foxconn Interconnect Technology Japan Co Ltd.	Japan, limited liability company	Sale of interconnect solutions and related products in Japan	JPY10,000,000	**100**	100	**—**	—
Foxteq (UK) Ltd.	United Kingdom, limited liability company	Sale of interconnect solutions and related products in the UK	GBP100,000	**100**	100	**—**	—
Foxconn Korea Ltd.	Korea, limited liability company	Sale of interconnect solutions and related products in Korea	USD780,000	**100**	100	**—**	—
Foxconn Optical Interconnect Technologies Singapore Pte. Ltd.	Singapore, limited liability company	Sale of interconnect solutions and related products in Singapore	88,000,000 ordinary shares of U$1 each	**100**	100	**—**	—
FIT Optoelectronica de Mexico S. De Mexico S. de R.L. de C.V.	Mexico, limited liability company	Production of interconnect solutions and related products in Mexico	MXN 10,095,897	**100**	100	**—**	—

18 Interests in subsidiaries (continued)

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/registered share capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2017	2016	**2017**	2016
				%	%	**%**	%
Foxconn Optical Interconnect Technologies Inc.	USA, limited liability company	Sale, research and development of interconnect solutions and related products in the USA	USD1,500,000	**100**	100	**—**	—
Foxconn Optical Component Technologies Inc.	USA, limited liability company	Research and development of interconnect solutions and related products in the USA	USD1	**100**	100	**—**	—
深圳安亞貿易有限公司 (“An Ya Trading (Shenzhen) Co., Ltd.”)*	The PRC, limited liability company	Sale of interconnect solutions and related products in the PRC	RMB1,000,000	**100**	100	**—**	—
New Wing Interconnect Technology (Bac Giang) Co., Ltd	Vietnam, limited liability company	Production of interconnect solutions and related products in Vietnam	VND 676,200,000,000	**100**	100	**—**	—
Retrofit One Limited Partnership	Cayman Islands, limited liability company	Investment holding in the USA	3,800,001 ordinary shares of USD1 each	**100**	—	**—**	—
XingFox Cayman	Cayman Islands, limited liability company	Research and development and manufacturing of batteries in Taiwan	2,478,185 ordinary shares of USD1 each	**100**	—	**—**	—

* for identification purpose only

19 Interests in associates

	2017 USD'000	2016 USD'000
At beginning of the year	**1,331**	890
Additions	**860**	500
Transfer from available-for-sale financial assets (Note 20)	**4,640**	—
Share of losses	**(285)**	(59)
At end of the year	**6,546**	1,331

During the year ended December 31, 2017, the Group further invested USD500,000 to Blu-castle, S.A. and USD360,000 to Hong Yang Intelligent Technology Co., Ltd.

Set out below are the particulars of the associates of the Group as at December 31, 2017 and 2016.

Name of entity	Place of establishment	% of ownership interest as at December 31, 2017	% of ownership interest as at December 31, 2016	Nature of business	Carrying amount 2017 USD'000	Carrying amount 2016 USD'000
Blu-castle, S.A.	Luxembourg	**35.0%**	28.77%	Supply of telecommunication equipment and software	**1,626**	1,331
Prenosis Inc.	United State of America	**25.06%**	2.30%	Development of health care related solution	**4,560**	—
Hong Yang Intelligent Technology Co., Ltd.	Taiwan	**45.00%**	N/A	Manufacturing of metal processing machinery and equipment	**360**	—

All the associates are private companies.

There were no contingent liabilities relating to the Group's interests in associates.

20 Available-for-sale financial assets

	2017 USD'000	2016 USD'000
At 1 January	**5,857**	—
Additions	**9,500**	5,857
Transfer to interests in associates (Note 19)	**(4,640)**	—
Fair value change in available-for-sale financial assets	**(339)**	—
At December 31	**10,378**	5,857

During the year ended December 31, 2017, the Group further invested USD3,500,000 (2016:USD 550,000) to Prenosis Inc. which was accounted for as available-for-sale financial assets as at December 31, 2016. Subsequent to the investment, the Group's equity interest in Prenosis Inc. increased to 25.06%, and became an associate when the Group demonstrated significant influence in Prenosis Inc..

Available-for-sale financial assets include the following:

	2017 USD'000	2016 USD'000
Unlisted securities:		
— Equity securities — US	**6,000**	550
— Equity securities — Europe	**4,378**	5,307
At December 31	**10,378**	5,857

Available-for-sale financial assets are denominated in the following currencies:

	2017 USD'000	2016 USD'000
US dollar	**6,000**	550
Euro	**4,378**	5,307
	10,378	5,857

The available-for-sale financial assets represents the Group's investments in private companies. The fair values of the unlisted equity securities are determined by using various applicable valuation technique, such as option pricing model, with reference to the recent transactions. The fair values are within level 3 of the fair value hierarchy (Note 3.5).

21 Deferred income tax assets and liabilities

	2017 USD'000	2016 USD'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**24,870**	13,814
— to be recovered within 12 months	**3,368**	4,159
	28,238	17,973
Deferred income tax liabilities:		
— to be recovered after more than 12 months	**(1,213)**	—
— to be recovered within 12 months	**—**	(1)
	(1,213)	(1)

Movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Tax losses USD'000	Unrealized profits USD'000	Impairment provision USD'000	Decelerated tax depreciation USD'000	Provision for employee benefits USD'000	Total USD'000
As at January 1, 2016	—	1,001	1,560	4,480	10,371	17,412
Recognized in the consolidated income statements	354	(1,001)	582	(321)	947	561
At December 31, 2016	354	—	2,142	4,159	11,318	17,973
Recognized in the consolidated income statements	(354)	3,368	322	228	6,701	10,265
At December 31, 2017	—	3,368	2,464	4,387	18,019	28,238

21 Deferred income tax assets and liabilities (continued)

Deferred income tax liabilities

	Accelerated tax depreciation USD'000	Others USD'000	Total USD'000
As at January 1, 2016	—	1	1
Recognized in the consolidated income statements	—	—	—
At December 31, 2016	—	1	1
Recognized in the consolidated income statements	1,213	(1)	1,212
At December 31, 2017	1,213	—	1,213

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC.

As at December 31, 2017 and 2016, deferred income tax liabilities of USD57,318,000 and USD47,792,000 has not been recognized for the withholding tax that would be payable on the remittance of earnings of PRC subsidiaries. The related unremitted earnings amounted to USD573,182,000 and USD477,923,000 as at December 31, 2017 and 2016, and the Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Company in the foreseeable future.

Deferred income tax assets are recognized for tax loss carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable. The Group has unrecognized deferred tax assets of approximately USD2,821,000 and USD1,351,000 in respect of tax losses of approximately USD11,284,000 and USD5,402,000 as at December 31, 2017 and 2016 respectively, that can be carried forward against future taxable income and the losses under the PRC companies are subject to expiry period of five years.

22 Inventories

	2017 USD'000	2016 USD'000
Raw materials	**146,221**	111,254
Work in progress	**97,204**	69,556
Finished goods	**307,339**	202,043
	550,764	382,853
Less: provision for impairment	**(22,438)**	(14,372)
	528,326	368,481

The cost of inventories recognized as expenses and included in "cost of sales" amounted to approximately USD1,881,673,000 and USD1,566,028,000 for the years ended December 31, 2017 and 2016, respectively, including provision for impairment of inventories amounted to USD8,066,000 and USD5,437,000 for the years ended December 31, 2017 and 2016.

23 Derivative financial instruments

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes below. The Group has the following derivative financial instruments:

	2017 USD'000	2016 USD'000
Current assets		
Currencies forward contracts	**5,569**	–

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the balance sheet date.

The Group's derivative financial instruments are measured at fair value with reference to the market value.

24 Trade and other receivables

	2017 USD'000	2016 USD'000
Trade receivables due from third parties	**662,114**	558,938
Trade receivables due from related parties (Note 34(b))	**330,920**	245,493
Total trade receivables	**993,034**	804,431
Other receivables	**13,306**	17,382
Amounts due from related parties (Note 34(b))	**7,016**	70,249
Prepayments for tooling expenses	**1,590**	2,407
Value-added tax receivable and recoverable	**33,435**	47,976
Deposits and prepayments	**25,292**	19,719
	1,073,673	962,164
Less: Non-current portion:		
— Deposits, prepayments and other receivables	**(11,771)**	(14,114)
Current portion	**1,061,902**	948,050

Amounts due from related parties are unsecured, interest-free, and with credit term of 90 days.

As at December 31, 2017 and 2016, the fair value of trade and other receivables of the Group, except for the prepaid expenses and value-added tax receivable and recoverable which are not financial assets, approximated their carrying amounts.

As at December 31, 2017 and 2016, the carrying amounts of trade and other receivables are denominated in the following currencies:

	2017 USD'000	2016 USD'000
RMB	**69,234**	114,447
HKD	**30**	80
USD	**983,248**	829,756
NTD	**12,805**	10,951
Others	**8,356**	6,930
	1,073,673	962,164

24 Trade and other receivables (continued)

The credit period granted to third parties and the related parties are ranging from 30 to 180 days. The aging analysis of trade receivables based on invoice date, before provision for impairment, as at December 31, 2017 and 2016, was as follows:

	2017 USD'000	2016 USD'000
Trade receivables — gross		
— Within 3 months	865,203	706,354
— 3 to 4 months	110,380	80,894
— 4 to 6 months	14,963	13,016
— 6 to 12 months	1,445	1,558
— Over 1 year	1,043	2,609
	993,034	804,431

As at December 31, 2017 and 2016, trade receivables of USD61,546,000 and USD27,841,000, respectively, were past due but not impaired. Based on the past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there is no significant change in their credit quality and the balances are considered fully recoverable. These trade receivables relate to a number of independent debtors for whom there is no recent history of default. The aging analysis of these trade receivables past due but not impaired based on due dates at respective balance sheet dates is as follows:

	2017 USD'000	2016 USD'000
— Within 3 months	58,141	24,264
— 3 to 4 months	1,011	148
— 4 to 6 months	115	773
— 6 to 12 months	1,370	863
— Over 1 year	909	1,793
	61,546	27,841

24 Trade and other receivables (continued)

As at December 31, 2016, trade receivables of approximately USD652,000 were impaired and provided for. The individually impaired receivables are related to customers in unexpected financial difficulties. Consequently, a total provision for impairment of trade receivables of approximately USD652,000 was recognised. The Group does not hold any collateral as security over these debtors as at December 31, 2017 and 2016.

Movements of the Company's provision for impairment of trade receivables are as follows:

	2017 **USD'000**	2016 USD'000
At beginning of the year	**652**	—
Provision for receivables impairment	**—**	652
Written off	**(652)**	—
	—	652

25 Cash and cash equivalents and short-term bank deposits

	2017 **USD'000**	2016 USD'000
Cash and cash equivalents	**767,554**	414,899
Short-term bank deposits	**48,668**	111,889
	816,222	526,788

25 Cash and cash equivalents and short-term bank deposits (continued)

The carrying amounts of the cash and cash equivalents and short-term fixed deposits are denominated in the following currencies:

	2017 USD'000	2016 USD'000
— RMB	**267,314**	147,968
— USD	**524,260**	355,888
— HKD	**143**	246
— Japanese Yen ("JPY")	**11,752**	6,245
— NTD	**7,038**	9,813
— Great British Pound ("GBP")	**281**	202
— Mexican Peso ("MXN")	**531**	1,242
— Vietnamese Dong ("VND")	**2,972**	2,978
— Others	**1,931**	2,206
	816,222	526,788

As at December 31, 2017 and 2016, the Group's bank balances of approximately USD387,748,000 and USD233,308,000, respectively were deposited with banks in the PRC. The remittance of these funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

26 Share capital

	Number of ordinary shares (in thousand)	Amount USD'000
Authorized:		
As at January 1, 2016	960,000	300,000
Share sub-division	14,400,000	—
As at December 31, 2016, January 1, 2017 and December 31, 2017	15,360,000	300,000
Issued and fully paid:		
As at January 1, 2016	349,705	109,283
Share sub-division	5,245,581	—
As at December 31, 2016 and January 1, 2017	5,595,286	109,283
Issuance of ordinary shares upon initial public offerings	990,060	19,337
Issuance of ordinary shares upon over-allotment	148,509	2,901
As at December 31, 2017	6,733,855	131,521

Notes:

(a) Pursuant to a shareholder's resolution passed on November 3, 2016, every then existing share with par value of USD0.3125 was split into 16 shares with par value of USD0.0195. The number of authorized ordinary shares increased from 960,000,000 shares to 15,360,000,000 shares while the number of issued and fully paid ordinary shares increased from 349,705,368 shares to 5,595,285,888 shares.

(b) On July 13, 2017, 990,060,000 ordinary shares of USD0.0195 each were issued at an offer price of HK$2.70 per share. On August 9, 2017, an over-allotment option has been exercised with 148,509,000 ordinary shares of USD0.0195 each issued at an offer price of HK$2.70 per share. Gross proceeds from the issuance of these shares in July and August 2017 amounted to USD393,532,000 with USD358,722,000 being credited to the share premium account of the Company, which is net off with the share issuance cost.

27 Reserves

	Other reserves							
	Share premium and capital reserve USD'000	Statutory reserves USD'000	Share-based payments reserve USD'000	Currency translation differences USD'000	Revaluation reserve USD'000	Sub-total USD'000	Retained earnings USD'000	Total USD'000
At January 1, 2016	156,786	42,050	42,971	41,940	–	126,961	793,491	1,077,238
Profit for the year	–	–	–	–	–	–	168,562	168,562
Dividends paid (Note 14)	–	–	–	–	–	–	(44,203)	(44,203)
Appropriation from retained earnings	–	9,570	–	–	–	9,570	(9,570)	–
Senior management and employee share grant schemes (Note 30)	–	–	33,779	–	–	33,779	–	33,779
Currency translation differences	–	–	–	(60,708)	–	(60,708)	–	(60,708)
At December 31, 2016	156,786	51,620	76,750	(18,768)	–	109,602	908,280	1,174,668
At January 1, 2017	**156,786**	**51,620**	**76,750**	**(18,768)**	**–**	**109,602**	**908,280**	**1,174,668**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**180,490**	**180,490**
Revaluation of available-for-sale financial assets	**–**	**–**	**–**	**–**	**(339)**	**(339)**	**–**	**(339)**
Release of fair value change upon the reclassification of available-for-sale financial assets	**–**	**–**	**–**	**–**	**(590)**	**(590)**	**–**	**(590)**
Dividends paid (Note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**(40,553)**	**(40,553)**
Issuance of ordinary shares upon initial public offerings	**371,294**	**–**	**–**	**–**	**–**	**–**	**–**	**371,294**
Shares issuance costs	**(12,572)**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,572)**
Appropriation from retained earnings	**–**	**4,030**	**–**	**–**	**–**	**4,030**	**(4,030)**	**–**
Senior management and employee share grant schemes (Note 30)	**–**	**–**	**23,056**	**–**	**–**	**23,056**	**–**	**23,056**
Currency translation differences	**–**	**–**	**–**	**66,899**	**–**	**66,899**	**–**	**66,899**
At December 31, 2017	**515,508**	**55,650**	**99,806**	**48,131**	**(929)**	**202,658**	**1,044,187**	**1,762,353**

28 Bank borrowings

	2017 USD'000	2016 USD'000
Bank borrowings, unsecured	**296,127**	384,818

(a) The borrowings are denominated in the following currencies:

	2017 USD'000	2016 USD'000
RMB	**38,400**	14,822
USD	**96,437**	118,833
NTD	**161,290**	251,163
	296,127	384,818

(b) The exposure of the borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	2017 USD'000	2016 USD'000
12 months or less	**296,127**	384,818

(c) The weighted average interest rates per annum at each balance sheet date were as follows:

	2017 USD'000	2016 USD'000
Bank borrowings, unsecured	**1.62%**	1.06%

Interest rates of bank borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

(d) The fair values of current borrowings approximate their carrying amounts as the impact of discounting is not significant.

29 Trade and other payables

	2017 USD'000	2016 USD'000
Trade payables to third parties	**413,356**	332,345
Trade payables to related parties (Note 34(b))	**176,128**	231,828
Total trade payables	**589,484**	564,173
Amounts due to related parties (Note 34(b))	**46,241**	101,673
Staff salaries, bonuses and welfare payables	**89,814**	77,132
Advances from customers	**6,452**	3,365
Deposits received, other payables and accruals	**212,363**	157,852
	944,354	904,195
Less: Non-current portion	**(8,644)**	(1,346)
	935,710	902,849

Amounts due to related parties are unsecured, interest-free, and with credit term of 90 days.

As at December 31, 2017 and 2016, all trade and other payables of the Group were non-interest bearing, and their fair value, except for those non-financial liabilities, approximate to their carrying amounts due to their short maturities.

The Group's trade and other payables are denominated in the following currencies:

	2017 USD'000	2016 USD'000
RMB	**236,984**	251,448
USD	**666,328**	620,230
NTD	**10,241**	2,869
Others	**30,801**	29,648
	944,354	904,195

29 Trade and other payables (continued)

Aging analysis of the trade payables to third parties and related parties at the respective balances sheet dates are as follows:

	2017 USD'000	2016 USD'000
Within 3 months	**520,782**	488,484
3 to 4 months	**59,027**	32,025
4 to 6 months	**8,750**	11,966
6 to 12 months	**257**	30,950
Over 1 year	**668**	748
	589,484	564,173

Amounts due to related parties are unsecured, interest-free, and repayable on demand.

As at December 31, 2017 and 2016, all trade and other payables of the Company were non-interest bearing, and their fair value, except for those non-financial liabilities, approximate to their carrying amounts due to their short maturities.

30 Share-based payments

During the years ended December 31, 2017 and 2016, there were two share-based payment schemes granted by the Company, namely: senior management restricted share plan and employees' restricted share plan.

(a) Senior management share grant plan

In January 2015, 21,840,000 restricted shares were issued to senior management by the Company. Such equity instruments were measured at fair value at the grant date and recognised as compensation cost over the vesting period. The grantees do not need to pay to acquire those shares. Issuance of shares is based on grantees' service periods. Shares will be vested from 31 March 2017 in accordance with the number of the grantees' shares on every March 31, June 30, September 30 and December 31 at 9 % in each quarter of 2017, 3% in each quarter of 2018 and 3.25% in each quarter from 2019 to 2022. Such vesting schedule was subsequently revised by the Company in May 2017, under which the shares will be vested from 31 March 2018 in accordance with the number of the grantees' shares on every March 31, June 30, September 30 and December 31 at 12% in each quarter of 2018 and 3.25% in each quarter from 2019 to 2022.

30 Share-based payments (continued)

(a) Senior management share grant plan (continued)

The weighted average fair value of shares granted under this plan determined using the H-model was USD3.95 per share. The significant inputs into the model were weighted average cost of capital of 13.4%, perpetuity growth rate of 3%, discount for lack of marketability of 20% and control premium of 20%. The volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices of comparable companies in the market.

The share-based payment expenses incurred for this plan for the year ended December 31, 2017 and 2016 were USD17,595,000 and USD22,442,000, respectively.

(b) Employees' share restricted share plan

4,101,500 restricted shares issued to employees by the Company in January 2016 were measured at the fair value on the grant date and recognized as compensation cost over the vesting period. The grantees do not need to pay to acquire those shares. Issuance of shares is based on grantees' service periods and certain performance indications. Shares will be vested from December 31, 2016 in accordance with the number of the grantees shares on every December 31 at 25% over the 4-year period, subject to performance related adjustment.

The weighted average fair value of shares granted determined using the market approach was USD6 per share. The significant input applied in this approach was price/earnings ratio of 13.5.

The share-based payment expenses incurred for this plan for the year ended December 31, 2017 and 2016 were USD5,461,000 and USD11,337,000 respectively.

31 Cash generated from operations

(a) Reconciliation of profit before income tax to net cash generated from operations.

	2017 USD'000	2016 USD'000
Profit before income tax	**224,554**	211,599
Adjustments for:		
— Depreciation of property, plant and equipment (Note 16)	**181,519**	148,495
— Amortization of intangible assets (Note 17)	**1,572**	3,021
— Amortization of land use rights (Note 15)	**575**	798
— Share based payment expenses (Note 30)	**23,056**	33,779
— Gains on disposal of property, plant and equipment (Note (b))	**(1,244)**	(29)
— Share of results of an associate	**285**	59
— Interest income	**(9,770)**	(5,530)
— Interest expenses	**4,757**	3,826
— Provision for impairment of inventories	**8,066**	5,437
— Impairment of trade receivables	**1,597**	652
— Listing expenses	**3,341**	5,786
— Changes in fair value of derivatives financial instruments	**(5,569)**	—
— Release of fair value change upon the reclassification of available-for-sale financial assets as associates	**(590)**	—
Changes in working capital:		
— Inventories	**(139,021)**	(130,637)
— Trade and other receivables	**(46,756)**	(172,300)
— Trade and other payables	**(37,286)**	172,841
Cash generated from operations	**209,086**	277,797

(b) In the consolidated statement of cash flows, proceeds from disposal of properties, plant and equipment comprise:

	2017 USD'000	2016 USD'000
Net book amount	**6,469**	9,783
Gains on disposal of property, plant and equipment	**1,244**	29
Proceeds from disposal	**7,713**	9,812

31 Cash generated from operations (continued)

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt during the year ended December 31, 2017.

	2017 USD'000
Cash and cash equivalents	767,554
Borrowings — due within 1 year	(296,127)
Net cash resources	471,427
Cash and cash equivalents	767,554
Gross debts — variable interest rates	(296,127)
Net cash resources	471,427

	Cash and cash equivalents USD'000	Borrowings due within 1 year USD'000	Total USD'000
At 1 January 2017	414,899	(384,818)	30,081
Cash flows	318,998	119,000	437,998
Acquisition of a subsidiary	—	(1,085)	(1,085)
Effect on currencies translation difference	33,657	(29,224)	4,433
At 31 December 2017	767,554	(296,127)	471,427

32 Commitments

(a) Capital commitments

Capital commitments contracted for at each balance sheet dates but not yet incurred is as follows:

	2017 USD'000	2016 USD'000
— Intangible assets	—	9,829
— Investments	8,000	—
— Property, plant and equipment	868	723
	8,868	10,552

(b) Operating lease commitments — the Group as lessee

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 USD'000	2016 USD'000
No later than 1 year	8,541	9,162
Later than 1 year and no later than 2 years	7,037	5,890
Later than 2 years and no later than 5 years	12,911	9,485
Later than 5 years	7,860	4,239
	36,349	28,776

(c) Operating leases rental receivables — the Group as lessor

At the end of reporting period, minimum lease payments receivable under non-cancellable operating lease of properties not recognised in the consolidated financial statements are as follows:

	2017 USD'000	2016 USD'000
No later than 1 year	333	308
Later than 1 year and no later than 2 years	145	279
Later than 2 years and no later than 5 years	30	107
	508	694

33 Business Combination

In May 2017, the Company subscribed and acquired 2,478,185 shares of XingFox Energy (Cayman) Technology Co., Ltd. ("XingFox Cayman"), a company incorporated in the Cayman Islands, representing the entire issued share capital of XingFox Cayman.

XingFox Cayman and its subsidiary are specialized in the research and development and manufacturing of batteries. The goodwill of USD3,090,000 (Note 17) arises from the acquisition is attributable to the synergies expected to arise in the complementing the Group's existing interconnect solutions and other products and enhancing the comprehensive solutions offered to customers.

The following table summarises the consideration paid for 100% equity interest of XingFox Cayman, and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

	As at 22 May 2017 USD'000
Total purchase consideration	
— Cash paid	2,480
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	365
Property, plant and equipment (Note 16)	15
Inventories	1,765
Trade and other receivables	1,982
Knowhow knowledge	2,098
Trade and other payables	(5,734)
Borrowings	(1,085)
Net liabilities assumed	(594)
Goodwill	3,074
	2,480
Outflow of cash to acquire business, net of cash acquired	
— Cash consideration paid	2,480
— Cash and cash equivalents acquired	(365)
Cash outflow on acquisition	2,115

The Group recognizes XingFox Cayman's non-controlling interests at their proportionate share of the investee's fair value of total identifiable net liabilities.

33 Business Combination (continued)

The acquired business contributed revenues of USD1,771,000 and net loss of USD4,322,000 to the Group for the period from May 23, 2017 to December 31, 2017. If the acquisition had occurred on January 1, 2017, the consolidated pro-forma revenue and profits for the year ended December 31, 2017 would have been USD3,400,540,000 and USD178,298,000, respectively.

34 Related-party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, has joint control over the party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

In addition to those disclosed elsewhere in the Financial Information, the following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended December 31, 2017 and 2016 and balances arising from related party transactions as at December 31, 2017 and 2016.

(a) The following transactions were carried out with the principal related parties:

Name of entities	Relationship with the Group
富士康精密電子(太原)有限公司 ("Foxconn Precision Electronics (Taiyuan) Co., Ltd.")*	Subsidiary of Hon Hai
富泰華工業(深圳)有限公司 ("Futaihua Industrial (Shenzhen) Co., Ltd.")*	Subsidiary of Hon Hai
鴻富錦精密工業(武漢)有限公司 ("Hongfujin Precision Industry (Wuhan) Co., Ltd.")*	Subsidiary of Hon Hai
鴻富錦精密電子(成都)有限公司 ("Hongfujin Precision Electronics (Chengdu) Co., Ltd.")*	Subsidiary of Hon Hai
鴻富錦精密電子(鄭州)有限公司 ("Hongfujin Precision Electronics (Zhenzhou) Co., Ltd.")*	Subsidiary of Hon Hai
鴻富錦精密電子(天津)有限公司 ("HongFuJing Precision Electronics (TianJin) Co., Ltd.")*	Subsidiary of Hon Hai
Foxconn Technology Pte. Ltd.	Associate of Hon Hai
IRIS World Enterprises Limited	Associate of Hon Hai
FUHONG Precision Component (Bac Giang) Limited	Subsidiary of Hon Hai
鴻富錦精密工業(深圳)有限公司 ("Hongfujin Precision Industry (Shenzhen) Co., Ltd.")*	Subsidiary of Hon Hai
新海洋精密組件(江西)有限公司 ("New Ocean Precision Component (Jiangxi) Co., Ltd.")*	Associate of Hon Hai
富準精密模具(淮安)有限公司 ("Fuzhun Precision Tooling (Huaian) Co., Ltd.")*	Subsidiary of Hon Hai
新海洋精密組件(贛州)有限公司 ("New Ocean Precision Component (Ganzhou) Co., Ltd.")*	Associate of Hon Hai
鴻海精密工業股份有限公司 ("Hon Hai Precision Industry Co., Ltd.")*	Ultimate Holding Company
富葵精密組件(深圳)有限公司 ("Fukwai Precision Component (Shenzhen) Co., Ltd")*	Associate of Hon Hai
深圳富能新能源科技有限公司 ("Shenzhen Fox-Energy Technology Co., Ltd")*	Subsidiary of Hon Hai
Carston Limited	Subsidiary of Hon Hai
Success Rise Enterprises Limited	Subsidiary of Hon Hai

* for identification purpose only

34 Related-party transactions (continued)

(a) The following transactions were carried out with the principal related parties: (continued)

	2017 USD'000	2016 USD'000
(i) Sales of goods		
— Subsidiaries of Hon Hai	**658,064**	568,921
— Hon Hai	**52,475**	59,028
— Associates of Hon Hai	**78,413**	58,693
	788,952	686,642
(ii) Sales of services		
— Subsidiaries of Hon Hai	**1,716**	202
— Hon Hai	**850**	2
— Associates of Hon Hai	**5,458**	2,155
	8,024	2,359
(iii) Purchase of goods		
— Subsidiaries of Hon Hai	**396,908**	357,498
— Associates of Hon Hai	**153,183**	170,763
— Hon Hai	**32,045**	32,081
	582,136	560,342
(iv) Purchase of property, plant and equipment		
— Subsidiaries of Hon Hai	**3,522**	2,364
— Associates of Hon Hai	**1,461**	5,514
— Hon Hai	**—**	319
	4,983	8,197
(v) Subcontracting expenses		
— Subsidiaries of Hon Hai	**72,815**	75,701
— Associates of Hon Hai	**—**	1
— Hon Hai	**58**	—
	72,873	75,702

34 Related-party transactions (continued)

(a) The following transactions were carried out with the principal related parties: (continued)

	2017 USD'000	2016 USD'000
(vi) Shared services expenses		
— Subsidiaries of Hon Hai	**354**	3,001
— Associates of Hon Hai	**2,726**	52
— Hon Hai	**159**	232
	3,239	3,285
(vii) Molding costs		
— Subsidiaries of Hon Hai	**59,171**	65,519
— Associates of Hon Hai	**—**	1,837
	59,171	67,356
(viii) Rental income		
— Subsidiaries of Hon Hai	**1,232**	1,265
— Associates of Hon Hai	**398**	312
	1,630	1,577
(ix) Rental expenses		
— Subsidiaries of Hon Hai	**1,990**	1,971
— Hon Hai	**747**	32
— Associates of Hon Hai	**34**	699
	2,771	2,702
(x) Patent license agreement (Note 17)		
— Hon Hai	**9,262**	—
(xi) Key management compensation		
Salaries, wages and bonuses	**12,815**	5,695
Pension, housing fund, medical insurance and other social insurances	**306**	358
Share-based payment expenses	**17,886**	22,974
	31,007	29,027

34 Related-party transactions (continued)

(a) The following transactions were carried out with the principal related parties: (continued)

The above related party transactions were carried out on terms mutually agreed between the parties. In the opinion of the directors of the Company, these transactions are in the ordinary course of business of the Group and in accordance with the term of the underlying agreements.

(b) Balances with related parties:

Amounts due from related parties:

	2017 USD'000	2016 USD'000
(i) Trade receivables:		
— Subsidiaries of Hon Hai	**278,952**	202,819
— Associates of Hon Hai	**48,961**	29,552
— Hon Hai	**3,007**	13,122
	330,920	245,493
(ii) Other receivables:		
— Subsidiaries of Hon Hai	**6,653**	51,432
— Associates of Hon Hai	**363**	14,678
— Hon Hai	**—**	4,139
	7,016	70,249

34 Related-party transactions (continued)

(b) Balances with related parties: (continued)

Amounts due to related parties

	2017 USD'000	2016 USD'000
(i) Trade payables:		
— Subsidiaries of Hon Hai	**134,491**	181,404
— Associates of Hon Hai	**40,353**	49,789
— Hon Hai	**1,284**	635
	176,128	231,828
(ii) Other payables:		
— Subsidiaries of Hon Hai	**44,738**	88,138
— Associates of Hon Hai	**1,092**	3,312
— Hon Hai	**411**	10,223
	46,241	101,673

35 Contingencies

The Group had no material contingent liabilities outstanding as at December 31, 2017.

36 Events after the balance sheet date

On January 18, 2017, the Company granted aggregate of 25,705,400 share options to certain eligible participants under the Share Option Scheme.

On February 7, 2018, the Group entered into an agreement with Sharp Corporation in which the Group and Sharp agreed to invest JPY1,541 million (approximately US$14 million) and JPY1,481 million (approximately US$13 million), respectively, into a company which will engage in development, design, manufacturing, distribution and marketing for automotive cameras and electronic mirrors.

37 Balance sheet and reserve movement of the Company

	Note	2017 USD'000	2016 USD'000
ASSETS			
Non-current assets			
Property, plant and equipment		**31,893**	42,552
Intangible assets		**8,390**	81
Interests in subsidiaries		**1,161,447**	960,941
Available-for-sale financial assets		**13,357**	5,857
Deferred income tax assets		**11,411**	10,138
Interests in associates		**6,546**	1,331
Deposits, prepayments and other receivables		**7,424**	6,641
		1,240,468	1,027,541
Current assets			
Inventories		**352,542**	262,291
Trade and other receivables		**973,857**	827,537
Derivative financial instrument		**3,620**	—
Cash and cash equivalents		**301,711**	169,387
		1,631,730	1,259,215
Total assets		**2,872,198**	2,286,756
EQUITY			
Equity attributable to owners of the Company			
Share capital		**131,521**	109,283
Reserves	(a)	**1,545,742**	1,094,553
Total equity		**1,677,263**	1,203,836

37 Balance sheet and reserve movement of the Company (continued)

	Note	2017 USD'000	2016 USD'000
LIABILITIES			
Non-current liability			
Deposits received and other payables		**7,457**	353
Current liabilities			
Trade and other payables		**1,006,538**	807,177
Borrowings		**161,290**	261,163
Current income tax liabilities		**19,650**	14,227
		1,187,478	1,082,567
Total liabilities		**1,194,935**	1,087,920
Total equity and liabilities		**2,872,198**	2,286,756

37 Balance sheet and reserve movement of the Company (continued)

(a) Reserve movement of the Company

	Retained earnings USD'000	Other reserves USD'000	Total USD'000
Balance as at January 1, 2016	310,595	731,217	1,041,812
Comprehensive income			
— Profit for the year	66,718	—	66,718
Other comprehensive income			
— Currency translation differences	—	(3,553)	(3,553)
Total comprehensive income for the year	66,718	(3,553)	63,165
Transaction with owners			
— Senior management and employees' share grant scheme	—	33,779	33,779
— Dividends paid	(44,203)	—	(44,203)
Total transactions with owners, recognized directly in equity	(44,203)	33,779	(10,424)
Balance at December 31, 2016	333,110	761,443	1,094,553
Balance as at January 1, 2017	**333,110**	**761,443**	**1,094,553**
Comprehensive income			
— Profit for the year	**83,263**	**—**	**83,263**
Other comprehensive income			
— Currency translation differences	**—**	**27,630**	**27,630**
— Fair value change in available-for-sale financial assets	**—**	**(339)**	**(339)**
— Release of fair value change upon the reclassification of available-for-sale financial assets as associates	**—**	**(590)**	**(590)**
Total comprehensive income for the year	**83,263**	**26,701**	**109,964**

37 Balance sheet and reserve movement of the Company (continued)

(a) Reserve movement of the Company (continued)

	Retained earnings USD'000	Other reserves USD'000	Total USD'000
Transaction with owners			
— issuance of ordinary shares upon initial public offerings	–	371,294	371,294
— Shares issuance costs	–	(12,572)	(12,572)
— Senior management and employees' share grant scheme	–	23,056	23,056
— Dividends paid	(40,553)	–	(40,553)
Total transactions with owners, recognized directly in equity	(40,553)	381,778	341,225
Balance at December 31, 2017	375,820	1,169,922	1,545,742

Definitions

"AGM"	the forthcoming annual general meeting of the Company to be held on June 22, 2018;
"Articles of Association"	the articles of association of the Company;
"Audit Committee"	the audit committee of the Board;
"Board" or "Board of Directors"	the board of Directors of the Company;
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
"China" or "PRC"	the People's Republic of China; for the purpose of this Annual Report only, references to "China" or the "PRC" do not include Taiwan, the Macau Special Administrative Region and Hong Kong;
"Company"	FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司), a company incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as FIT Hon Teng Limited, the Shares of which are listed on the Main Board of the Stock Exchange;
"Director(s)"	director(s) of the Company;
"Group", "our Group", "we" or "us"	the Company and its subsidiaries;
"Hon Hai"	Hon Hai Precision Industry Co., Ltd. (鴻海精密工業股份有限公司), a limited liability company established in Taiwan and listed on the Taiwan Stock Exchange (Stock Code: 2317), which is the controlling shareholder of the Company;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"IPO"	the initial public offering of Shares and listing of the Group on the Stock Exchange on July 13, 2017;
"Latest Practicable Date"	March 23, 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this Annual Report;
"Listing Date"	the date on which dealings in the Shares first commenced on the Stock Exchange, i.e. July 13, 2017;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and supplemented from time to time;

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
"Prospectus"	the prospectus dated June 29, 2017 issued by the Company;
"Relevant Period"	has the meaning ascribed thereto in the Corporate Governance Report of this Annual Report;
"Remuneration Committee"	the remuneration committee of the Board;
"Reporting Period"	has the meaning ascribed thereto in the Directors' Report of this Annual Report;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) with nominal value of US$0.01953125 each in the issued capital of the Company or if there has been a subsequent sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company;
"Shareholder(s)"	holder(s) of the Share(s);
"Share Grant Scheme"	the share grant scheme approved and adopted by the Company on January 5, 2015, and the rules and interpretations thereof further adopted by the Board on November 4, 2016;
"Share Option Scheme"	the share option scheme conditionally approved and adopted by our Shareholders on December 19, 2017;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"U.S." or "United States"	the United States of America;
"US$", "USD" or "U.S. dollar(s)"	United States dollars, the lawful currency of the United States; and
"%"	percent.