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

2018

Annual Report

Contents

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)

PIPKIN Chester John

(appointed with effect from April 1, 2019)

GILLESPIE William Ralph

(resigned with effect from April 1, 2019)

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

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

WEBSITE

http://www.fit-foxconn.com

Financial Highlights

	Year ended December 31,				
	2018	2017	2016	2015	2014
	USD'000	USD'000	USD'000	USD'000	USD'000
	Audited	Audited	Audited	Audited	Audited
Key income statement items					
Revenue	**4,005,635**	3,398,803	2,880,260	2,327,902	2,482,214
Gross Profit	**708,077**	544,995	490,410	435,240	477,559
Operating profit	**308,552**	219,826	209,954	209,222	230,080
Profit attributable to owners of the Company	**232,675**	180,486	168,562	177,009	187,025

	Year ended December 31,				
	2018	2017	2016	2015	2014
	USD'000	USD'000	USD'000	USD'000	USD'000
	Audited	Audited	Audited	Audited	Audited
Key balance sheet items					
Current assets	**2,752,810**	2,412,019	1,843,319	1,531,175	1,704,452
Total assets	**4,309,744**	3,180,634	2,614,699	2,266,396	2,505,367
Total equity	**1,947,328**	1,893,903	1,283,984	1,186,557	1,053,913
Current liabilities	**2,269,086**	1,276,874	1,329,368	1,077,260	1,448,022
Total liabilities	**2,362,416**	1,286,731	1,330,715	1,079,839	1,451,454

	Year ended December 31,				
	2018	2017	2016	2015	2014
	USD'000	USD'000	USD'000	USD'000	USD'000
	Audited	Audited	Audited	Audited	Audited
Key financial ratios					
Gross profit margin	**17.7%**	16.0%	17.0%	18.7%	19.2%
Operating profit margin	**7.7%**	6.5%	7.3%	9.0%	9.3%
Margin of profit attributable to owners of the Company	**5.8%**	5.3%	5.9%	7.6%	7.5%

	Year ended December 31,				
	2018	2017	2016	2015	2014
	USD'000	USD'000	USD'000	USD'000	USD'000
	Audited	Audited	Audited	Audited	Audited
Key operating ratios					
Average inventory turnover days[1]	**65**	58	47	47	44
Average trade receivables turnover days[2]	**88**	97	90	106	87
Average trade payables turnover days[1]	**73**	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

Dear shareholders,

On behalf of the Board, I am pleased to announce that FIT achieved its goal of performance growth despite the uncertainties in the overall economy caused by factors such as Brexit and trade war in the global market in 2018. Considering the arrival of the era of Internet of Things, the Company completed the consolidation of a well-known global brand, Belkin International Inc. ("Belkin"), in September 2018 to strengthen its business model in smart accessories and smart home. By leveraging Belkin's brand, channel, software and hardware integration capability and wireless product technology, we will have outstanding development potential in the business of smart accessories and smart home.

I have confidence in the competitiveness of the Company despite more complicated and severe challenges in the future. FIT will continue to act upon its existing strategy to aggressively make progress in 5G, communication, automotive electronics, smart accessories and smart home markets, and continue to create long-term value for shareholders by relying on its own technological advantages and the strategic vision of its management.

DEVELOPMENT STRATEGIES

FIT successfully expanded in several areas in 2018, such as the acquisition of Belkin and strengthening intelligent accessories and smart home. FIT entered into a joint venture agreement with Sharp to acquire technologies and services such as automotive cameras and electronic mirrors, acquired the business of automotive electronics systems and intelligent vehicle systems from Hon Hai Group, and expanded its presence in Vietnam to reduce costs and enhance competitiveness. Having experienced the glorious era of PCs and the rise of mobile phone, we now encounter the booming development of smart home and optical communication industries. We have accumulated more experience from our operations and we also recognize that the process of industrial development and transformation is the ceaseless process of evolution, and also a process of bringing forth the new from the old, and making constant progress. The management team will continue to maintain innovative thinking, promote transformation, attract more top talents to join us, and drive the next wave of growth momentum.

REVIEW OF 2018 RESULTS

In 2018, FIT achieved remarkable results in the computers, mobile communications and accessories, optical communications and automotive businesses. Through organic growth and acquisitions, we recorded an increase in both revenue and profit, and thanks to the efforts of our teams, we also achieved higher net profit margin as compared with 2017.

FUTURE PROSPECTS

Against the trend of faster data transmission, more connected devices and more data generated in the upcoming era of 5G and Internet of Everything, the business of Belkin will promote the overall development and scope of connected devices. With the rise of 5G and the manufacturing ability of FIT, the product lines under development will optimize the experience of smart home living. Wireless connection is not only presented in the wireless charging products of Belkin Connected Things, but also will be achieved in the Connected Home product lines of Linksys, Wemo and Phyn. With a series of cloud big data software, Belkin will lead the development process of smart life products. Belkin will soon develop and launch audio products, bringing a new and comprehensive experience for consumers around the world.

With the technologies and management capabilities of FIT, combined with its brand and channel, we believe that the future is full of opportunities for growth. In 2019, the Company will focus on the integration of FIT and Belkin resources, expand product lines, reduce costs and enhance competitiveness, and strive to provide growth drivers for profitability under the support of the marketing efforts of global channel partners. In addition, FIT, as a leader in optical modules, has launched 400G optical modules in the industry. With the advent of the 5G era, the demand for upgrading data center specifications will bring the next growth opportunity.

DIVIDENDS

The Company has been continuously generating stable cash flows. The Board proposed to declare a final dividend of HK$0.07 per Share, representing a dividend payout ratio of approximately 26%. Upon approval by our shareholders at the forthcoming annual general meeting to be convened on June 21, 2019, the said final dividend will be distributed to the shareholders whose names appear on the register of shareholders of the Company on July 2, 2019 and will be paid on or around July 19, 2019.

APPRECIATION

Last but not least, I would like to 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. 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.

Chairman
LU Sung-Ching

Management Discussion and Analysis

BUSINESS OVERVIEW AND OUTLOOK

Business Overview

In 2018, 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 continued and significant growth in our business. Our revenue amounted to US$4,006 million, representing a 17.9% growth, and our profit amounted to US$233 million, representing a 29.4% growth, each compared to 2017. As discussed in more details in the "Results of Operations" section below, our sales in all end markets recorded a significant 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, we have maintained our gross profit margin level, with a slight increase compared to 2017. As a result, we 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 devices continued to be our largest revenue contributor by end market. In 2018, we witnessed an increase in the sales of interconnect solutions utilized in the new smartphone products released by brand company customers, as well as the earphones associated with such smartphone products. This also drove the increase in sales of products associated with such smartphones, such as Lightning plugs, cables and connectors. In 2018, our revenue from the mobile devices market increased by 9.3% compared to 2017.

In addition, since 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 addition, our optical modules business experienced a growth, thanks to our efforts in expanding our customer base. In addition, our business growth was also contributable to an increase in the demand for 100G optical modules and CPU Sockets from data centers and server platforms. As a result, in 2018, our revenue from the communications infrastructure end market increased by 8.5% compared to 2017.

We solidified our leading position in the computer and consumer electronics end market by focusing on high end products and products of our key brand companies, and continuously increased our market share in the area of game consoles. In 2018, our revenue from the computer and consumer electronics end market increased by 11.3% compared to 2017.

Furthermore, 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 38.2% in 2018 compared to 2017.

Finally, as we successfully acquired Belkin International, Inc., a world-recognized consumer electronics product brand, by way of Merger in September 2018, our business in connected home market grew rapidly. In 2018, our revenue from the connected home market increased by 366.9% compared to 2017.

Similarly as we successfully acquired Belkin International, Inc. in September 2018, which significantly increased our business in the smart accessories market, in 2018, our revenue from the smart accessories market increased by 387.5% compared to 2017.

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 advanced 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 devices. Demand for mobile devices continues to expand around the world. The proliferation of mobile phones generally, and smartphones in particular, drives demand for various smart accessories products such as chargers, batteries and earphones. 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 smart accessories 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. Therefore, we anticipate that this end market will continue to be our main revenue contributor.

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, which is mainly contributable to technological advancement, such as the adoption of 5G network in the business sector in next few years. 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 product end market has laid a solid foundation for demand for connectors, contributing to the steady growth of connector market in the past and 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 stay approximately flat compared to other major end markets.

Automotive, industry and medical. 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 popularity of in-vehicle infotainment. For example, while fully autonomous vehicles are unlikely to be commercially available in the short term, automobile manufacturers are already equipping their products with advanced driver assistance systems (ADAS) which comprise a large number of hardware components fitted with connectors.

Connected home. With the rapid development of connected home, household appliances become more and more interconnected, so they are equipped with more interconnect equipment. With the development of the Internet of Things, the applications continue to expand, and the physical interfaces of data transmission required by the Internet of Things will be more and more.

Smart accessories. The popularity of smartphones has driven the demand for various smart accessories products (such as chargers, batteries, earphones, screen protectors and mobile power suppliers etc.). The size of the smart accessories market is growing and the product categories are expanding. New products have stimulated consumers demand.

Business Prospects

We anticipate the overall connector industry, particularly the end markets we strategically focus on, will continue to grow in 2019. We plan to continue our strategic focus on the mobile 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 2019. 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 devices*. We expect 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 Android phone customers and remain cautiously optimistic about the mobile terminal market. We anticipate that this end market will continue to be our main revenue contributor.

- *Communications infrastructure*. We anticipate a growth compared to 2018, 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 (e.g. the products utilizing 100G/400G technology that are proactively developed by us after the acquisition of the optical modules business of Avago) are expected to grow faster than lower speed optical products, the change of sales mix would contribute to the growth of 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 other than growth. Nonetheless, we recognize that the steady need for various connectors in this end market has laid a solid foundation for demand for connectors, and are therefore committed to broadening our consumer-facing operations.

- *Automotive, industry 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 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 the FIT-Sharp to explore opportunities in the development, design, manufacturing, distribution and marketing for automotive cameras and electronic rearview mirrors. On July 30, 2018, the FIT-Sharp (through its wholly-owned subsidiary) entered into an assets purchase agreement to acquire from a non wholly-owned subsidiary of Sharp certain assets related to vehicle camera and electronic rearview mirror technology business so as to further realize the business intent of the FIT-Sharp. 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.

- *Connected home*. We will strengthen the development of smart products in the field related with home living and provide novel design of smart products, thus providing more comfort and convenience for home livings of consumers. And this expectation has been strongly proved in the CES 2019 exhibition. In the CES 2019 exhibition, we launched Linksys MR8300 tri-band mesh router, WeMo smart control series (including new products such as WeMo 3-way light switch, WeMo dimmer, WeMo Mini smart socket and WeMo Insight smart socket) and PHYN smart water flow detection device, etc. We expect to achieve good results in the connected home market.

- *Smart accessories*. With Belkin brand and the Group’s resources, we expand the product lines and seize the market share by leveraging on the sales network of our global partners channel.

Moreover, with respect to the connected home industry, on March 27, 2018, we entered into a merger agreement to acquire Belkin International, Inc. a world-recognized brand of consumer electronics products, by way of a merger. The closing of the merger took place on September 20, 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. In 2018, our revenue amounted to US$4,006 million, representing a 17.9% increase from US$3,399 million in 2017. Among the six main end markets, our revenue from (1) the mobile devices end market increased by 9.3%, (2) the communications infrastructure end market increased by 8.5%, (3) the computer and consumer electronics end market increased by 11.3%, (4) the automotive, industry and medical end market increased by 38.2%, and (5) the connected home market increased by 366.9% and (6) the smart accessories market increased by 387.5%. 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,			
	2018		2017	
	US$	**%**	US$	%
	(in thousands, except for percentages)			
Mobile devices	**1,712,332**	**42.8**	1,566,701	46.1
Communications infrastructure	**938,582**	**23.4**	865,172	25.5
Computer and consumer electronics	**933,801**	**23.3**	838,931	24.7
Automotive, industry and medical	**79,728**	**2.0**	57,677	1.7
Connected home	**36,781**	**0.9**	7,878	0.2
Smart accessories	**304,411**	**7.6**	62,444	1.8
Total	**4,005,635**	**100**	3,398,803	100

Mobile devices. The revenue from the mobile devices market increased by 9.3%, which was primarily due to 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 revenue from the communications infrastructure end market increased by 8.5%, which was primarily due to the successful integration of the optical modules business we acquired from Avago, the increase in the demand for our high-end optical modules and CPU sockets, and our effort in expanding our customer base.

Computer and consumer electronics. The revenue from the computer and consumer electronics end market increased by 11.3%, which was primarily due to the growth of demand for USB Type-C demand and game consoles.

Automotive, industry and medical. The revenue from the automotive, industry and medical end market increased by 38.2%, which was primarily due to our continued efforts in the research and development in the automotive application area and the development of potential customers.

Connected home. The revenue from the connected home end market increased by 366.9%, which was mainly due to the completion of the acquisition of Belkin International, Inc., by way of a merger in September 2018.

Smart accessories. The revenue from the smart accessories end market increased by 387.5%, which was mainly due to the completion of the acquisition of Belkin International, Inc., by way of a merger in September 2018.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by 15.5% from US$2,854 million in 2017 to US$3,298 million in 2018. Our cost of sales primarily includes (1) raw materials and consumables used, (2) consumption of inventories of finished goods and work in progress, (3) employee benefit expenses in connection with our production personnel, (4) depreciation of property, plant and equipment, (5) subcontracting expenses, (6) utilities, molding and consumable expenses, and (7) other costs associated with the production of our interconnect solutions and other products. In 2018, the increase was primarily driven by the expansion of our overall business scale.

As a result of the foregoing, our gross profit increased by 29.9% from US$545 million in 2017 to US$708 million in 2018, primarily due to the revenue increase. Our gross profit margin increased from 16.0% in 2017 to 17.7% in 2018, primarily due to (1) continuing improvement of the quality of our new earphone related products, (2) higher utilization of our production facilities and (3) continuing optimization of our human resources allocation which improved our production efficiency.

Distribution Costs and Selling Expenses

Our distribution costs and selling expenses increased by 46.1% from US$58 million in 2017 to US$85 million in 2018, primarily due to the acquisition of Belkin.

Administrative Expenses

Our administrative expenses increased by 55.6% from US$81 million in 2017 to US$126 million in 2018, as we incurred more legal and professional expenses to support our acquisition activities in 2018 and increased our employees' compensation to retain talents.

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 19.5% from US$190 million in 2017 to US$227 million in 2018, mainly due to the investments in the research and development of 400G optical communications products and automobile application products.

Operating Profit and Operating Profit Margin

As a result of the foregoing, our operating profit increased by 40.5% from US$220 million in 2017 to US$309 million in 2018, primarily due to the increase in our gross profit as a result of the continued increase in the sales of products and our prudent cost control. Our operating profit margin increased from 6.5% in 2017 to 7.7% in 2018.

Income Tax Expense

We incur income tax expenses primarily relating to our operations in China, Taiwan, United States, Vietnam and Mexico. Our income tax expenses increased by 79.5% from US$44 million in 2017 to US$79 million in 2018. Effective income tax rate increased from 19.6% to 25.3%, primarily due to the under-provision of tax payable in the prior years.

Profit for the year

As a result of the increase in operating profit, profit for the year increased by 29.4% from US$180 million in 2017 to US$233 million in 2018. Our profit margin increased from 5.3% in 2017 to 5.8% in 2018.

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, 2018, we had cash and cash equivalents of US$1,065 million, compared to US$768 million as of December 31, 2017. In addition, as of December 31, 2018, we had short-term bank deposits of US$6 million, compared to US$49 million as of December 31, 2017.

As of December 31, 2018, we had total bank borrowings of US$989 million, all of which were short-term borrowings, as compared to US$296 million as of December 31, 2017. We incur bank borrowings mainly for our working capital purpose and to supplement our capital needs for investment and acquisition activities. The increase in bank borrowings in 2018 was primarily for the purchase of production facilities and acquisitions.

Our current ratio, calculated using current assets divided by current liabilities, was 1.21 times as of December 31, 2018, compared to 1.89 times as of December 31, 2017. Our quick ratio, calculated using current assets less inventories divided by current liabilities, was 0.93 times as of December 31, 2018, compared to 1.48 times as of December 31, 2017. The decrease in our current ratio and quick ratio was primarily due to an increase in short-term loans in 2018 for the acquisition of Belkin.

Cash Flow

In 2018, our net cash generated from operating activities was US$697 million, net cash used in investing activities was US$946 million, and net cash generated from financing activities was US$575 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, bank borrowings and IPO proceeds. We also have funded and will continue to fund part of our capital expenditures using our IPO proceeds. See "Use of IPO Proceeds" below for details.

In 2018, our capital expenditures amounted to US$135 million, as compared to US$125 million in 2017. The capital expenditures in 2018 were primarily used for upgrading, maintaining and converting production facilities, including converting certain production facilities for optical products, increasing the investment in research and development of automobile application, and upgrading environmental protection systems of certain factories in the PRC.

Significant Investments, Acquisitions and Disposals

On February 7, 2018, the Group entered into an agreement with Sharp 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 the FIT-Sharp which would be engaged in development, design, manufacturing, distribution and marketing for automotive cameras and electronic rearview mirrors. For further details, please refer to the Company's announcement dated February 7, 2018.

On March 27, 2018, the Company, Belkin International, the seller stockholders of Belkin International, Beluga Merger Sub, Inc. (a wholly-owned subsidiary of the Company) and Mr. Chester J. Pipkin (as the representative of certain of Belkin International's equityholders) entered into a merger agreement to effect the acquisition of Belkin International by the Company by way of a merger for a consideration of US$850 million. Closing of the merger took place on September 20, 2018. For further details, please refer to the Company's announcements dated March 27, 2018, June 22, 2018, September 6, 2018 and September 21, 2018.

On May 28, 2018, the Company entered into a business and property transfer agreement with various vendors including Hon Hai, Hongfujin Precision Industrial (Shenzhen) Co., Ltd. (鴻富錦精密工業（深圳）有限公司) and Futaihua Industrial (Shenzhen) Co., Ltd. (富泰華工業（深圳）有限公司), pursuant to which the Company agreed to purchase and the vendors agreed to sell certain inventories, equipment and intangible assets for a total cash consideration of NTD500 million (equivalent to approximately US$16.7 million). For further details, please refer to the Company's announcement dated May 28, 2018.

On July 30, 2018, SHARP FIT Automotive Technology (Wuxi) Co, Ltd. (a wholly-owned subsidiary of the FIT) entered into an assets purchase agreement with Wuxi Sharp Electronic Components Co., Ltd. (無錫夏普電子元器件有限公司) (a non wholly-owned subsidiary of Sharp), pursuant to which the former agreed to acquire and the latter agreed to sell certain assets of the latter's vehicle camera and electronic rearview mirror technology business at a consideration of JPY400 million (approximately US$3.6 million). For further details, please refer to the Company's announcement dated July 30, 2018.

Save as disclosed above, we did not have any significant investments, material acquisitions or material disposals for the year ended December 31, 2018.

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, 2018 was 65 days as compared to 58 days in 2017. The higher inventory turnover days for the year ended December 31, 2018 was primarily due to increased leveling production activities as a result of a greater product demand in the second half of 2018.

Our inventories increased from US$528 million as of December 31, 2017 to US$650 million as of December 31, 2018, primarily due to the inclusion of the inventories of Belkin International, Inc. as a result of the acquisition of Belkin International, Inc. by way of a merger in September 2018.

Provision for inventory impairment increased from US$22 million as of December 31, 2017 to US$29 million as of December 31, 2018, which is due to an increase in the balance of inventories in 2018.

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 decreased from 97 days in 2017 to 88 days in 2018, mainly due to the structure of customers and our continued efforts in enhancing the collection of trade receivables. Our average trade receivables turnover days for related parties in 2018 was 111 days, as compared to 132 days for 2017.

Our trade receivables decreased from US$993 million as of December 31, 2017 to US$935 million as of December 31, 2018, primarily due to our efforts in enhancing the collection and control of trade receivables overdue.

Trade Payables

Our trade payables primarily relate to the procurement of raw materials, work in progress and finished goods. Our average trade payables turnover days in 2018 was 73 days, remaining stable as compared to 74 days in 2017.

Our trade payables increased from US$589 million as of December 31, 2017 to US$722 million as of December 31, 2018, primarily due to increased procurement as a result of an increase in demand from customers in 2018.

Major Capital Commitments

As of December 31, 2018, we had capital commitments of US$11 million, which was primarily connected with investments and the purchase of property, plant and equipment related to our production facilities.

Contingent Liabilities

As of December 31, 2018, save as disclosed in "Pledge of Assets" below, 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, 2018, 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, 2017: not applicable).

USE OF IPO PROCEEDS

We completed our IPO and, including the issue of the over-allotment Shares, received proceeds of US$394 million, which have been used and will continue to be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

The use of proceeds is set out as below:

Item	Approximate % of total net proceeds	Available on July 13, 2017, the Listing Date (US$'000)	Utilized between July 13, 2017 and December 31, 2018 (US$'000)	Unutilized as at December 31, 2018 (US$'000)
Research and business development of advanced optical transmission solutions and other interconnect solutions and technology for use in advanced data centers for big data, cloud computing and similar applications	22%	86,680	**86,680**	**0**
Enhancement of production facility for high-speed optical transceivers and the establishment of additional facilities focused on the production expansion of advanced optical modules	3%	11,820	**11,820**	**0**
Research and business development of other products in the mobile devices end market	15%	59,100	**59,100**	**0**
Research and development of new acoustics products and technologies	5%	19,700	**19,700**	**0**
Investment in new interconnect technologies and solutions for car camera modules, an essential part of advanced driver-assistance systems, and for automotive electronics	7.5%	29,550	**29,550**	**0**
Investment in new interconnect technologies and solutions for batteries for electric vehicles and for electronic vehicle connectivity solutions	7.5%	29,550	**0**	**29,550**

Item	Approximate % of total net proceeds	Available on July 13, 2017, the Listing Date (US$'000)	Utilized between July 13, 2017 and December 31, 2018 (US$'000)	Unutilized as at December 31, 2018 (US$'000)
Selectively pursue acquisitions of assets and businesses which are complementary to the Company's business and are in line with the Company's growth strategies	25%	98,500	**98,500**	**0**
Establish an enhanced management information technology platform including purchase of enterprise resource planning systems and modules, as well as implementation	5%	19,700	**4,017**	**15,683**
Working capital and other general corporate purposes	Not more than 10%	39,400	**4,901**	**34,499**

The expected timeline of the intended use of the unutilized proceeds is set out as below:

Item	Unutilized as at December 31, 2018 (US$'000)	Expected timeline
Investment in new interconnect technologies and solutions for batteries for electric vehicles and for electronic vehicle connectivity solutions	**29,550**	The remaining amount is expected to be fully utilized by the second half of 2020.
Establish an enhanced management information technology platform including purchase of enterprise resource planning systems and modules, as well as implementation	**15,683**	The remaining amount is expected to be fully utilized by the second half of 2020.
Working capital and other general corporate purposes	**34,499**	The remaining amount is expected to be fully utilized by the second half of 2019.

PLEDGE OF ASSETS

As of December 31, 2018, certain bank deposits totaling RMB21.2 million and US$2.3 million of 重慶市鴻騰科技有限公司 and 淮安市富利通貿易有限公司 and SHARP FIT Automotive Technology (Wuxi) Co, Ltd. have been pledged as customs guarantee.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As of December 31, 2018, we had approximately 40,500 employees, as compared to 47,700 employees as of December 31, 2017. In 2018, total employee benefit expenses including Directors' remuneration were US$604 million, as compared to US$567 million in 2017. 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 and the Restricted Share Unit 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 further 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, 2018, the nominal principal amount of our forward foreign exchange contracts was USD160 million.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LU Sung-Ching (盧松青), (also known as Sidney Lu), aged 60, 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 60, 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. PIPKIN Chester John, aged 58, was appointed as our executive Director with effect from April 1, 2019. He is currently the chief executive officer of FIT CHB Holdo, Inc. and Belkin, subsidiaries of the Company, in charge of the Group's smart home and smart accessories businesses. Mr. Pipkin founded Belkin in 1983 and has been responsible for the strategy and operations of Belkin since then.

Mr. Pipkin attended the University of California, Los Angeles ("UCLA"), in 1978 and 1979. Mr. Pipkin has been listed as one of the 500 most influential people in Los Angeles by the Los Angeles Business Journal since 2016. He has served on the UCLA History Advisory Committee since 2011. Mr. Pipkin was inducted into the Dealerscope Magazine Consumer Electronics Hall of Fame in 2006. He was a regional recipient of the Ernst and Young Entrepreneur of the Year award in 1996. He has served as a board member for YMCA of Metropolitan Los Angeles since 2008 and served as a board member and board chairman for the California YMCA Model Legislature and Court from 1980 to 2000. He is also a founding board member and the founding board chairman for both Da Vinci Schools from 2008 to 2019 and RISE high schools from 2017 to 2019.

NON-EXECUTIVE DIRECTOR

Dr. CHEN Ga-Lane (陳杰良), aged 66, 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 61, 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 66, 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). In addition, since December 15, 2017, Mr. Tang has been an independent non-executive director and also a chairman of the audit committee of Tsit Wing International Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 2119) and a leading provider of integrated B2B coffee and black tea solutions.

Mr. CHAN Wing Yuen Hubert (陳永源), aged 61, 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

For the biographical details of Mr. PIPKIN Chester John, please see "Directors – Executive Directors" of this section.

Mr. TSAI Yen-Chao, aged 54, joined the Group in July 2014 and was appointed as the Vice President on March 1, 2018. He is primarily responsible for the cable products business of the Group. He currently holds various positions in the subsidiaries of the Group, including director of Huaian Fulitong Trading Co., Ltd. and Huaian Futaitong Electronics Technology Co., Ltd..

Prior to joining our Group, he served as a business unit director of Hon Hai, our predecessor, from March 1988 to July 2014, responsible for the cable products business.

Mr. TSAI obtained a degree in mechanical engineering from the National United University (國立聯合大學) in June 1987.

Mr. LIN Nan-Hung, aged 49, joined the Group on October 1, 2013 and was appointed as a business unit director on the same date. He is primarily responsible for the connector business of the Group. He currently holds various positions in the subsidiaries of the Group, including the legal representative and director of Fu Ding Precision Component (Shenzhen) Co., Ltd..

Prior to joining our Group, he served as a business unit director of Hon Hai, our predecessor, from June 1996 to September 2013, responsible for the connector business.

Mr. LIN obtained a master's degree in mechanical engineering from National Chung Hsing University in June 1994.

Mr. LEE Bing-Yen, aged 48, joined the Group on April 5, 2017 and was appointed as the Vice President on the same date. He is primarily responsible for the automotive electronics business of the Group. He currently holds various positions in subsidiaries of the Group, including director of FIT Electronics Device Pte. Ltd., SHARP FIT Automotive Technology (Wuxi) Co, Ltd. and SHARP FIT Automotive Technology Co. Ltd..

Prior to joining our Group, he served as the Vice President of HTC from December 2010 to August 2016, responsible for the connector business.

Mr. LEE obtained a master's degree in electrical engineering from the California Institute of Technology of the United States in June 2004.

Ms. AMINIAN Maryam E, aged 56, has been Vice President and General Manager of Foxconn Optical Interconnect Technologies (FOIT) since February 1, 2017, and is primarily responsible for the high speed communication business of the Group. Prior to that she served as Vice President of Research and Development ("R&D"), beginning in 2010 in Avago Technologies until FIT's acquisition of FOIT in December of 2015 . She served as Senior Director of Technical Program Management for Avago Technologies starting in 2006 until her promotion to Vice President of R&D in 2010. Ms. Aminian possesses over 35 years of progressive experience in global management of Operations, Manufacturing, Process Engineering, and R&D spanning a wide variety of technical industries. Her previous executive positions include serving as

Chief Operating Officer for Maxtor's Magnetic Media division from 2004 to 2006, as well as Executive Operations Director for Finisar's III-V fab facility (formerly Genoa) since 2002. From 1981 to 2001, Ms. Aminian held various engineering and operations management positions at several leading magnetic media providers including Ampex, Hitachi Metals, Domain, and Nashua, most notably culminating in 11 years as Executive Director of Process Engineering at Seagate Technology.

Directors' Report

The Board is pleased to announce the Annual Report and the audited consolidated financial statements of the Group for the year ended December 31, 2018 (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 focuses on the development, manufacturing and marketing of electronic and optoelectronic connectors, antennas, acoustic components, cables and modules for applications in computers, communication equipment, consumer electronics, automobiles, industrial and green energy field products. The Group's offices and manufacturing sites are located in Asia, the Americas and Europe. In 2018, FIT merged with Belkin (Belkin®, Linksys®, Wemo®, Phyn®) to create a global consumer electronics leader. Today, this group leads in connecting people with technologies at home, at work and on the go within the accessories ("Connected Things" — Belkin brand) and the smart home ("Connected Home" — Linksys, Wemo and Phyn brands) markets.

RESULTS

The results of the Group for the year ended December 31, 2018 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 69 to 70 of this Annual Report.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.07 per ordinary share of the Company for the year ended December 31, 2018. The final dividend is subject to the approval of the Shareholders at the AGM on June 21, 2019 and will be paid on July 19, 2019 to the Shareholders whose names appear on the register of members of the Company on July 2, 2019.

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 19 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 "2018 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 the Annual Report. These discussions form part of this Directors' Report.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five 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

As of the year ended December 31, 2018, sales to our top five customers accounted for 65.9% of the Group's total revenues (2017: 65.4%) while sales to our single largest customer accounted for 27.2% of the Group's total revenues (2017: 23.4%).

Major Suppliers

As of the year ended December 31, 2018, purchases from our top five suppliers accounted for 39.4% of the Group's total purchases (2017: 38.2%) while purchases from our single largest supplier accounted for 15.3% of the Group's total purchases (2017: 13.1%).

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 27 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 on pages 73 to 74 of the consolidated statements of changes in equity.

RESERVES AVAILABLE FOR DISTRIBUTION

As of December 31, 2018, the Company's reserves available for distribution amounted to approximately US$1,746 million (December 31, 2017: approximately US$1,486 million).

BANK BORROWINGS

Particulars of bank borrowings of the Company and the Group as of December 31, 2018 are set out in note 29 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 *(resigned with effect from April 1, 2019)*
Mr. PIPKIN Chester John *(appointed with effect from April 1, 2019)*

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 articles 83(3) and 84 of the Articles of Association, Mr. CHAN Wing Yuen Hubert, Mr. TANG Kwai Chang, Mr. CURWEN Peter D and Mr. PIPKIN Chester John 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 Shareholders to be despatched on or around April 30, 2019.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 20 to 25 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 as independent persons during the Reporting Period and 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. PIPKIN Chester John, has entered into a service contract with the Company on June 20, 2017, June 20, 2017 and March 29, 2019, 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.

Each non-executive Director and independent non-executive Director 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 Reporting Period.

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 of December 31, 2018, 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%
GILLESPIE William Ralph[2] *(resigned with effect from April 1, 2019)*	Beneficial owner	347,238	0.005%
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 Share Grant Scheme.

2. Mr. GILLESPIE William Ralph is also interested in 1,088,000 Shares under Share Grant Scheme.

Save as disclosed above, as of December 31, 2018, 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) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were entered in the register required to be kept pursuant to Section 352 of the SFO referred to therein or which had otherwise been 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 of December 31, 2018, 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 of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were 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 ordinary shares of the Company

Name of Shareholder	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
Hon Hai Precision Industry Co., Ltd. ("Hon Hai")	Interest in controlled corporation[1]	5,179,557,888	76.81%
Foxconn (Far East) Limited ("Foxconn Far East Cayman")*	Interest in controlled corporation[2]	5,179,557,888	76.81%
Foxconn (Far East) Limited ("Foxconn Far East Hong Kong")**	Beneficial owner	5,179,557,888	76.81%

* Foxconn Far East Cayman is 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 is 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 of December 31, 2018, 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 of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE GRANT 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.

As of the Latest Practicable Date, 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 *(resigned with effect from April 1, 2019)*	January 18, 2016	1,088,000

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 was in force from the Adoption Date up to (and including) December 31, 2018. As of the Latest Practicable Date, the Share Option Scheme has expired. 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.

	Number of share options										
Name or category of participant	As of January 1, 2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As of December 31, 2018	Date of grant of share options	Exercise period of share options (both dates inclusive)	Closing price of the Shares immediately before the date on which the share options were granted HK$	Exercise price of share options HK$	Weighted average closing price of share immediately before the date(s) on which options were exercised HK$
Employees in aggregate	–	25,705,400	–	1,338,800	24,366,600	–	January 18, 2018	April 30, 2018 to April 29, 2021	5.210	5.338	–
	–	24,440,600	105,000	1,872,400	–	22,463,200	May 25, 2018	June 11, 2018 to June 10, 2021	3.800	3.690	3.907
	–	10,000,000	–	–	–	10,000,000	December 28, 2018	December 28, 2019 to December 28, 2022	3.380	3.422	–
	–	183,000	–	–	–	183,000	December 28, 2018	33 1/3%: December 28, 2019 and December 28, 2024; 33 1/3%: December 28, 2020 and December 28, 2024; 33 1/3%: December 28, 2021 and December 28, 2024	3.380	3.422	–
	–	31,580,000	–	–	–	31,580,000	December 28, 2018	25%: December 28, 2019 and December 28, 2025; 25%: December 28, 2020 and December 28, 2025; 25%: December 28, 2021 and December 28, 2025; 25%: December 28, 2022 and December 28, 2025	3.380	3.422	–
	–	91,909,000	105,000	3,211,200	24,366,600	64,226,200[1]					

Note:

1. The total number of Shares available for issue under the Share Option Scheme is 64,226,200 Shares, representing approximately 0.95% of the issued Shares as of the Latest Practicable Date.

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

RESTRICTED SHARE AWARD SCHEMES

The First Restricted Share Award Scheme was approved and adopted by the Company on January 31, 2018 and amended on May 15, 2018. The purpose of the First Restricted Share Award Scheme is to recognize the contributions by the selected participants, to give them incentives to achieve performance goals, and to attract suitable personnel for further development of the Group. Please refer to the Company's announcement dated May 21, 2018 for further details of the First Restricted Share Award Scheme.

As of December 31, 2018, the trustee of the First Restricted Share Award Scheme had purchased 161,801,000 Shares on the Stock Exchange for a total consideration of HK$575,875,168.90 and 2,938,000 Shares had been granted to the selected participants.

The Second Restricted Share Award Scheme was approved and adopted by the Company on February 11, 2019. The purpose of the Second Restricted Share Award Scheme is to recognize the contributions by the selected participants, to give them incentives to achieve performance goals, and to attract suitable personnel for further development of the Group. Please refer to the Company's announcement dated March 26, 2019 for further details of the Second Restricted Share Award 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

Save as disclosed under the section headed "Restricted Share Award Scheme", during the Reporting Period 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 Precision Industry Co., Ltd. (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 Reporting Period.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the connected transactions and 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.

CONNECTED TRANSACTIONS

On February 7, 2018, the Group entered into an agreement with Sharp Corporation in which the Group and Sharp Corporation agreed to invest JPY1,541 million (approximately US$14 million) and JPY1,481 million (approximately US$13 million), respectively, into FIT Electronics Device Pte. Ltd. which would be engaged in development, design, manufacturing, distribution and marketing for automotive cameras and electronic rearview mirrors. FIT Electronics Device Pte. Ltd. is held as to 51% by the Group and as to 49% by Sharp Corporation. As of the Latest Practicable Date, the Company is indirectly owned as to approximately 76.81% by Hon Hai, the controlling Shareholder, which controls more than 30% interest in Sharp Corporation. Sharp Corporation is therefore an associate of Hon Hai and a connected person of the Company. For further details, please refer to the Company's announcement dated February 7, 2018.

On May 28, 2018, the Company entered into a business and property transfer agreement with various vendors including Hon Hai, Hongfujin Precision Industrial (Shenzhen) Co., Ltd. (鴻富錦精密工業(深圳)有限公司) and Futaihua Industrial (Shenzhen) Co., Ltd. (富泰華工業(深圳)有 限公司), pursuant to which the Company agreed to purchase and the vendors agreed to sell certain inventories, equipment and intangible assets for a total cash consideration of NTD500 million (equivalent to approximately US$16.7 million). As of the Latest Practicable Date, since Hongfujin Precision Industrial (Shenzhen) Co., Ltd. and Futaihua Industrial (Shenzhen) Co., Ltd. are wholly-owned subsidiaries of Hon Hai, they are associates of Hon Hai and connected persons of the Company. For further details, please refer to the Company's announcement dated May 28, 2018.

On July 30, 2018, SHARP FIT Automotive Technology (Wuxi) Co, Ltd. (a wholly-owned subsidiary of FIT Electronics Device Pte. Ltd.,) entered into an assets purchase agreement with Wuxi Sharp Electronic Components Co., Ltd. (無錫夏普電子元器件有限公司) (a non wholly-owned subsidiary of Sharp Corporation), pursuant to which the former agreed to acquire and the latter agreed to sell certain assets of the latter's vehicle camera and electronic rearview mirror technology business at a consideration of JPY400 million (approximately US$3.6 million). Sharp Corporation and its subsidiaries are associates of Hon Hai and connected persons of the Company. For further details, please refer to the Company's announcement dated July 30, 2018.

Non-Exempt 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 (as expenses) 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; (e) the property leasing transactions between the relevant members of our Group, as the lessee, and Hon Hai Group, as the lessor; (f) the logistics transactions between our Group as the purchaser and Hon Hai Group as the service provider; (g) the automotive technology development transactions between our Group as the purchaser and Hon Hai Group as the supplier; (h) the pensions payment transactions between our Group as the service provider and Hon Hai Group as the customer; (i) the OEM equipment sales transactions between our Group as the supplier and Hon Hai Group as the purchaser; (j) the rental income transactions between our Group, as the lessor, and Hon Hai Group, as the lessee; (k) the technology licensing transactions between FIT Electronics Device Pte. Ltd., as the licensee, and Sharp Corporation, as the licensor; and (l) the trademark licensing transactions between FIT Electronics Device Pte. Ltd., as the licensee, and Sharp Corporation, as the licensor. 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, 2018, the annual cap of the maximum aggregate annual amount payable to Hon Hai Group was set at US$79.7 million, the actual aggregate amount was approximately US$66.2 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, 2018, the annual cap of the maximum aggregate annual fee payable to Hon Hai Group was set at US$5.3 million, the actual aggregate amount was approximately US$3.9 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 molding machines, stamping machines and computer hardware. The framework equipment sales agreement was effective during the period of January 1, 2018 to December 31, 2018.

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, 2018, the annual cap of the aggregate annual sales amount to Hon Hai Group was set at US$ approximately 8.0 million, the actual aggregate amount was approximately US$2.6 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. Such equipment and facilities may include air-conditioning system, automatic assembly equipment, stamping machines, computer software and molding machines. The framework equipment purchase agreement was effective during the period of January 1, 2018 to December 31, 2018.

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, 2018, the annual cap of the aggregate annual procurement amount from Hon Hai Group was set at US$10.6 million, the actual aggregate amount was approximately US$3.2 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, 2018, the annual cap of the aggregate annual rental payment to Hon Hai Group was set at US$5.2 million, the actual aggregate amount was approximately US$4.2 million.

(f) Framework Logistics Agreement

Our Group entered into a framework logistics agreement with Hon Hai, pursuant to which we may purchase certain transportation, logistics, warehousing and customs clearance services from Hon Hai Group. The framework logistics agreement was effective during the period of January 1, 2018 to December 31, 2018.

As to the pricing policy, the consideration for transactions contemplated under the framework logistics agreement shall be determined with reference to the market price (which is the price offered by independent third parties for providing the same or similar services) and, in respect of warehousing services, service quality and warehouse locations.

For the year ended December 31, 2018, the annual cap of the aggregate annual logistics services payment to Hon Hai Group was set at approximately US$7.2 million, the actual aggregate amount was approximately US$13,297.

(g) Framework Automotive Technology Development Agreement

Our Group entered into a framework automotive technology development agreement with Hon Hai, pursuant to which we may commission and purchase certain technology in relation to the development of automotive electrical systems and smart vehicle systems and their related products, including the establishment of in-vehicle infotainment systems from Hon Hai Group. The framework automotive technology development agreement was effective during the period of January 1, 2018 to December 31, 2018.

As to the pricing policy, the consideration for transactions contemplated under the framework automotive technology development agreement shall be determined with reference to the historical costs of research and development, including the time, technology, staff, materials, tools and equipment, incurred for similar projects undertaken by the relevant members of Hon Hai Group in the past.

For the year ended December 31, 2018, the annual cap of the aggregate annual purchase payment to Hon Hai Group was set at US$5.5 million, the actual aggregate amount was approximately US$0.

(h) Framework Pensions Payment Agreement

Our Group entered into a framework pensions payment agreement with Hon Hai, pursuant to which we agree to make pensions payment on behalf of Hon Hai to certain of our Group's employees who were formerly employed by Hon Hai Group, and Hon Hai Group agrees to repay the advance pensions payment made by the Group on its behalf. The framework pensions payment agreement was effective during the period of January 1, 2018 to December 31, 2018.

As to the pricing policy, the consideration for transactions contemplated under the framework pensions payment agreement shall be determined with reference to the actual amount of advance pensions payment made by the Group on behalf of Hon Hai Group.

For the year ended December 31, 2018, the annual cap of the aggregate annual pensions payment to Hon Hai Group was set at US$4.1 million, the actual aggregate amount was approximately US$461,917.

(i) Framework OEM Equipment Sales Agreement

Our Group entered into a framework OEM equipment sales agreement with Hon Hai, pursuant to which we may sell certain equipment and facilities including newly assembled industrial testing equipment relating to automation and artificial intelligence which would be primarily used in Hon Hai Group's business and production activities. The framework OEM equipment sales agreement is effective during the period of January 1, 2018 to December 31, 2019.

As to the pricing policy, the consideration for the equipment and facilities under the Framework OEM Equipment Sales Agreement shall be determined with reference to the costs of production and assembly, plus a profit margin of not less than 1%, if inappropriate or inapplicable; with reference to 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, 2018, the annual cap of the aggregate annual sales amount to Hon Hai Group was set at US$19.0 million, the actual aggregate amount was approximately US$0.

(j) Framework Rental Income Agreement

Our Group entered into a framework rental income agreement with Hon Hai, pursuant to which Hon Hai Group may lease properties of the Group, including but not limited to manufacturing facilities and dormitories. The framework rental income agreement is effective during the period of January 1, 2018 to December 31, 2019.

As to the pricing policy, the rent for the leased property under the framework rental income agreement shall be determined with reference to the market price (which is the rent required by independent third parties leasing the same or similar property).

For the year ended December 31, 2018, the annual cap of the aggregate annual rental payment from Hon Hai Group was set at approximately US$2.2 million, the actual aggregate amount was approximately US$1.7 million.

(k) Technology License Agreement

FIT Electronics Device Pte. Ltd., a subsidiary of the Company, entered into a technology license agreement with Sharp Corporation, an associate of Hon Hai, pursuant to which Sharp agrees to grant to FIT Electronics Device Pte. Ltd. the right to develop, assemble and manufacture the specified products in the specific territories for sale or distribution using the know-how from Sharp Corporation regarding control plans, manufacturing standards and research and development. The technology license agreement is effective during the period of February 7, 2018 to December 31, 2020.

As to the consideration, the license fee under the technology license agreement was agreed with reference to a valuation report on the fair value of certain patents and technologies constituting the relevant know-how under the technology license agreement.

For the year ended December 31, 2018, the annual cap of the aggregate license fees payment to Sharp Corporation was set at JPY1,541,000,000 (approximately US$14.0 million), the actual aggregate amount was approximately US$14.0 million.

(l) Trademark License Agreement

FIT Electronics Device Pte. Ltd., a subsidiary of the Company, entered into a trademark license agreement with Sharp Corporation, an associate of Hon Hai, pursuant to which Sharp agrees to grant to FIT Electronics Device Pte. Ltd. the right to use certain trade names and the right to use certain trademark in connection with the manufacture, affixing, packaging, sales, marketing and distribution of the specified products in the specified territories. The trademark license agreement was effective during the period of February 7, 2018 to February 6, 2019.

As to the consideration, the license fee under the technology license agreement was agreed with reference to the usual range of license fees charged by licensors for similar transactions between large international corporations as well as prevailing market conditions.

For the year ended December 31, 2018, the annual cap of the aggregate license fees payment to Sharp Corporation was set at JPY55,000,000 (approximately US$0.5 million), the actual aggregate amount was approximately US$0.

We set forth below (m) the sales transactions between our Group as the supplier and Hon Hai Group as the purchaser; (n) the procurement transactions between our Group as the purchaser and Hon Hai Group as the supplier; and (o) the sub-contracting transactions between our Group as the customer and Hon Hai Group as the sub-contractor. As one or more of the applicable percentage ratios in relation to the transactions under each of the above categories are more than 5%, such transactions are 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.

(m) Framework Sales Agreement

Our Group entered into a framework sales agreement with Hon Hai, pursuant to which Hon Hai Group purchases 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, 2018, the annual cap of the aggregate annual sales amount to Hon Hai Group was set at US$1,222.0 million, the actual aggregate amount was approximately US$931.4 million.

(n) 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, 2018, the annual cap of the aggregate annual procurement amount from Hon Hai Group was set at US$634.8 million, the actual aggregate amount was approximately US$436.3 million.

(o) 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 subcontracting 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, 2018, the annual cap of the aggregate annual sub-contracting services fee amount to Hon Hai Group was set at approximately US$124.7 million, the actual aggregate amount was approximately US$106.6 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 36 to 43 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, 2018 as set out in note 35 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 not made any charitable donations.

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, 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 38 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Company as well as the audited consolidated financial statements for the year ended December 31, 2018.

CODE ON CORPORATE GOVERNANCE PRACTICE

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 45 to 62 in this Annual Report.

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 Reporting Period up to the Latest Practicable Date.

AUDITOR

PricewaterhouseCoopers was appointed as auditor of the Company for the year ended December 31, 2018.

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 26, 2019

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2018 (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's 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 of the Latest Practicable Date, the Board of Directors comprises three executive Directors, one non-executive Director and three independent non-executive Directors, which shows as follows:

Executive Directors:

LU Sung-Ching (盧松青)
LU Pochin Christopher (盧伯卿)
GILLESPIE William Ralph *(resigned with effect from April 1, 2019)*
PIPKIN Chester John *(appointed with effect from April 1, 2019)*

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 Rules 3.10(1) and 3.10(2) in the Listing Rules in relation to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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 secretaries 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, 2018 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 *(resigned with effect from April 1, 2019)*	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 in 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. PIPKIN Chester John, the executive Directors, have entered into service contracts with the Company on June 20, 2017, June 20, 2017 and March 29, 2019 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 Director and independent non-executive Director has signed an appointment letter with the Company for a fixed initial term of three years on November 4, 2016, and the 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 Company's 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 of Directors on the appointment, re-election and succession plans of the Directors.

Board Meetings

Board meetings are held 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 secretaries of the Company 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 11 Board meetings and 2 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)	8/11	0/2
LU Pochin Christopher (盧伯卿)	11/11	0/2
GILLESPIE William Ralph *(resigned with effect from April 1, 2019)*	11/11	0/2
CHEN Ga-Lane (陳杰良)	10/11	0/2
CURWEN Peter D	11/11	0/2
TANG Kwai Chang (鄧貴彰)	11/11	2/2
CHAN Wing Yuen Hubert (陳永源)	11/11	2/2

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 including:

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

   (ii) the Audit 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 Audit 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 Audit 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 4 meetings to discuss and consider the following:

- Review of the interim results of the Company and its subsidiaries for the six months ended June 30, 2018;

- Review of the annual results of the Company and its subsidiaries for the year ended December 31, 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 auditors. The Board did not deviate from any recommendation made by the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

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

Name	Audit Committee meetings attended/held
Mr. TANG Kwai Chang (鄧貴彰)	4/4
Mr. CURWEN Peter D	4/4
Mr. CHAN Wing Yuen Hubert (陳永源)	4/4

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 of the Company 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.

During the Relevant Period, the Nomination Committee held 1 meeting to discuss and consider the following:

- Review of the structure, size and composition of the Board;
- Review of the annual confirmation from Hon Hai in respect of their compliance with the deed of non-competition;
- Review of the independence of the independent non-executive directors;
- Review of the board diversity policy of the Company;
- Consideration of the re-election of the retiring Directors.

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

Name	Nomination Committee meetings attended/held
Mr. CHAN Wing Yuen Hubert (陳永源)	1/1
Mr. CURWEN Peter D	1/1
Mr. LU Sung-Ching (盧松青)	1/1

The Company has adopted a director nomination policy (the "Director Nomination Policy"), pursuant to which in evaluating and selecting any candidate for directorship, the following criteria should be considered:

- Character and integrity.
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board diversity policy of the Company that are relevant to the Company's business and corporate strategy.
- Any measurable objectives adopted for achieving diversity on the Board.
- Requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.
- Any potential contributions the candidate can bring to the Company and/or the Board in terms of qualifications, skills, experience, independence, gender and race diversity.
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.
- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for the nomination of directors and succession planning.

As regards selection and appointment of new Director:

- The Nomination Committee and/or the Board should, upon receipt of a proposal on the appointment of a new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
- If the process yields more than one desirable candidate, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and the reference check of each candidate (where applicable).
- The Nomination Committee should then recommend that the Board appoint the most appropriate candidate for directorship, as applicable.
- For any person that is nominated by a shareholder for election as a director at a general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

  Where appropriate, the Nomination Committee and/or the Board should make recommendations to Shareholders with respect to the proposed election of Directors at a general meeting.

As regards re-election of Director at general meeting:

- The Nomination Committee and/or the Board should review the overall contribution and service to the Company of each Director and his/her level of participation and performance on the Board.

- The Nomination Committee and/or the Board should also review and determine whether the Director continues to meet the criteria as set out above.

- The Nomination Committee and/or the Board should then make recommendations to Shareholders in respect of the proposed re-election or replacement of Directors at a general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as Director at a general meeting, the relevant information of the candidate will be disclosed in the circular to Shareholders and/or the explanatory statement that accompanies the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

Board Diversity Policy

The Company believes that board diversity will have a substantial benefit in improving its performance. Therefore, the Company has adopted a board diversity policy to ensure that the diversity of Board members be considered from a number of perspectives. 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 the Board level as an essential element in maintaining competitive advantage and sustainable development.

In designing the Board's composition, Board diversity is considered from a number of perspectives, including but not limited to gender, age, ethnicity, cultural and educational background, regional and industry experience, technical and professional skills and/or qualifications, knowledge, length of service 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 Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies in order for the Board to be effective. The Board will take opportunity to achieve board diversity when selecting and making recommendation on suitable candidates for Board appointments.

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 of the Company 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;

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 6 meetings to discuss and consider the following:

- Assessment of the performance of the Directors and senior management;
- Review of the remuneration of the Directors;
- Review of the Company's adoption of the Restricted Share Award Schemes and making recommendations to the Board; and
- Review of the remuneration policy and making recommendations to the Board.

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

Name	Remuneration Committee meetings attended/held
Mr. CURWEN Peter D	6/6
Dr. CHEN Ga-Lane (陳杰良)	4/6
Mr. TANG Kwai Chang (鄧貴彰)	6/6

Senior Management's Remuneration

For the year ended December 31, 2018, the remuneration by band of members of the senior management of the Company (whose biographies are set out on pages 24 to 25 of this Annual Report) is set out below:

Remuneration band	Number of individuals
US$1 – US$300,000	3
US$300,001 – US$600,000	1
US$900,001 – US$1,200,000	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, 2018, 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 63 to 68 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 System

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 system, which includes the Board, the Audit Committee, Internal Audit department, the Company's management, and all the departments of the organization. All the departments and the Company's operational management are responsible for identifying, reporting and preliminary management of risks, and execute the risk management work flows and work with the Audit Department to initiate various risk management work. The Internal Audit department and the Company's senior management are responsible for the overall organization, coordination and planning of risk management work, and monitors the performance of the departments. The Audit Committee and the Board are responsible for monitoring the work of internal audit department, company management and all department. As the highest decision-making body of the Company's risk management and internal control system, 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 system 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 2018, 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 the 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 insider 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 and/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, Listing Rules 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 including interim review	1,350,000
Non-audit services — tax services	434,070
Total	**1,784,070**

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), an associate director of TMF Hong Kong Limited (a supplier providing corporate secretarial services), to act as another 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, 2018, 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.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy"). According to the Dividend Policy, in considering the declaration and payment of dividends, the Board shall take into account the following factors of the Group:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of the Shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of the Cayman Islands and the Articles of Association. The Board will review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

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 the 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 any of our joint company secretaries at our place of business in Hong Kong at 31/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 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 immediate effect on 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 69 to 165, which comprise:

- the consolidated balance sheet as at December 31, 2018;
- 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, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 Matters

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

The key audit matters identified in our audit are summarised as follows:

- Impairment of inventories
- Purchase price allocation for acquisition of Belkin International Inc.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of inventories	
Refer to note 22 "Inventories" and note 4 "Critical accounting estimates and judgements" to the consolidated financial statements. At December 31, 2018, the Group held inventories of USD650 million, net of provision for impairment of inventories of approximately USD29 million. 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, including performance of mid-year and annual inventory counts, and review of holding period for individual inventory items.	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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of inventories (Continued)	
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.	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.
Purchase price allocation for acquisition of Belkin International Inc.	
Refer to Notes 4, 17 and 34 to the Group's consolidated financial statements. The Group acquired 100% interest in Belkin International Inc. ("Belkin" or "acquiree") at a consideration of USD880 million on September 20, 2018. The Group is required to determine the fair values of the identifiable assets acquired and liabilities assumed of the acquiree at the date of acquisition. Management engaged an independent professional valuer to assist them to perform a fair valuation using different valuation models for different types of assets. The purchase price was allocated to the identifiable assets acquired and liabilities assumed at the date of acquisition. The Group determined the net identifiable assets, identified intangible assets and goodwill of USD114 million, USD324 million and USD442 million, respectively, which were determined on a provisional basis. We focused on this area because determination of the valuation of identified intangible assets required significant management's judgement and estimates.	We assessed the competence, capability and objectivity of the independent professional valuer. We assessed management's identification of the acquiree's identifiable assets acquired and liabilities assumed at the date of acquisition based on investment contracts, the acquiree's financial information and the relevant accounting standards. We also assessed the appropriateness of the valuation models adopted by management, and the reasonableness of key assumptions, e.g. remaining useful life, royalty rate and discount rate, through comparing with the market information. We also assessed the reasonableness of the key assumptions underlying cash flows forecasts prepared by management used in the valuation models, e.g. sales growth rates and gross profit margin, by comparing these assumptions to the Belkin's historical performance, market data and approved budget of Belkin. Based on the above, we found management's judgement and estimates used in determination of the valuation of identified intangible assets were supported by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in management analysis and discussion (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the directors' report and corporate governance report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the directors' report and corporate governance report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and take appropriate action considering our legal rights and obligations.

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.

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

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

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

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

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

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

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

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

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.

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 these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Chiu Kong, Edmond.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong,
March 26, 2019

Consolidated Income Statement

Year ended December 31, 2018

	Note	2018 USD'000	2017 USD'000
Revenue	6	**4,005,635**	3,398,803
Cost of sales	9	**(3,297,558)**	(2,853,808)
Gross profit		**708,077**	544,995
Distribution costs and selling expenses	9	**(85,440)**	(58,477)
Administrative expenses	9	**(126,099)**	(81,157)
Research and development expenses	9	**(227,083)**	(189,855)
Net impairment losses on financial assets	9, 25	**(1,697)**	—
Other income	7	**19,824**	19,224
Other gains/(losses) — net	8	**20,970**	(14,904)
Operating profit		**308,552**	219,826
Finance income	11	**16,242**	9,770
Finance costs	11	**(13,325)**	(4,757)
Finance income — net	11	**2,917**	5,013
Share of results of associates — net	19	**(107)**	(285)
Profit before income tax		**311,362**	224,554
Income tax expense	12	**(78,687)**	(44,068)
Profit for the year		**232,675**	180,486
Profit attributable to:			
Owners of the Company		**233,946**	180,490
Non-controlling interests		**(1,271)**	(4)
		232,675	180,486
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	**3.50**	2.95
Diluted earnings per share	13	**3.35**	2.81

Consolidated Statement of Comprehensive Income

Year ended December 31, 2018

	2018 USD'000	2017 USD'000
Profit for the year	**232,675**	180,486
Other comprehensive (loss)/income:		
Items that may be reclassified subsequently to profit or loss		
Exchange difference arising on the translation of foreign operations	**(90,080)**	66,899
Fair value change in available-for-sale financial assets	**—**	(339)
Transfer of fair value change in available-for-sale to consolidated income statement	**—**	(590)
Items that will not be reclassified subsequently to profit or loss		
Fair value change in financial assets at fair value through other comprehensive income	**(1,529)**	—
Total other comprehensive (loss)/income for the year, net of tax	**(91,609)**	65,970
Total comprehensive income for the year	**141,066**	246,456
Total comprehensive income for the year attributable to:		
Owners of the Company	**142,337**	246,460
Non-controlling interests	**(1,271)**	(4)
	141,066	246,456

Consolidated Balance Sheet

As at December 31, 2018

	Note	2018 USD'000	2017 USD'000
ASSETS			
Non-current assets			
Land use rights	15	**20,144**	21,850
Property, plant and equipment	16	**599,336**	675,883
Intangible assets	17	**790,958**	13,949
Financial assets at fair value through other comprehensive income	20	**17,102**	—
Available-for-sale financial assets	20	**—**	10,378
Interests in associates	19	**6,199**	6,546
Deposits, prepayments and other receivables	25	**14,409**	11,771
Deferred income tax assets	21	**108,786**	28,238
		1,556,934	768,615
Current assets			
Inventories	22	**649,708**	528,326
Trade receivables	25	**935,135**	993,034
Deposits, prepayments and other receivables	25	**95,572**	68,868
Financial assets at fair value through profit or loss	24	**1,147**	—
Derivative financial instruments	23	**—**	5,569
Short-term bank deposits	26	**6,424**	48,668
Cash and cash equivalents	26	**1,064,824**	767,554
		2,752,810	2,412,019
Total assets		**4,309,744**	3,180,634
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**131,708**	131,521
Treasury shares	31(d)	**(72,072)**	—
Reserves	28	**1,874,942**	1,762,353
		1,934,578	1,893,874
Non-controlling interests		**12,750**	29
Total equity		**1,947,328**	1,893,903

Consolidated Balance Sheet

As at December 31, 2018

	Note	2018 USD'000	2017 USD'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	21	**75,023**	1,213
Deposits received and other payables	30	**18,307**	8,644
		93,330	9,857
Current liabilities			
Trade and other payables	30	**1,190,699**	935,710
Contract liabilities	6	**6,025**	—
Bank borrowings	29	**989,401**	296,127
Current income tax liabilities		**82,961**	45,037
		2,269,086	1,276,874
Total liabilities		**2,362,416**	1,286,731
Total equity and liabilities		**4,309,744**	3,180,634

The financial statements on pages 69 to 165 were approved by the Board of Directors on March 26, 2019 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, 2018

		Attributable to owners of the Company						
	Note	Share capital USD'000	Share premium and capital reserve (note 28) USD'000	Other reserves (note 28) 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/(loss) for the year		—	—	—	180,490	180,490	(4)	180,486
Other comprehensive income								
— Exchange difference arising on the translation of foreign operations		—	—	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	20	—	—	(590)	—	(590)	—	(590)
Total comprehensive income for the year		—	—	65,970	180,490	246,460	(4)	246,456
Transaction 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	31	—	—	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 Changes in Equity

Year Ended December 31, 2018

		Attributable to owners of the Company							
	Note	Share capital USD'000	Treasury Shares USD'000	Share premium and capital reserve (Note 28) USD'000	Other reserves (Note 28) USD'000	Retained earnings USD'000	Sub-total USD'000	Non-controlling interests USD'000	Total equity USD'000
Balance as at January 1, 2018		131,521	–	515,508	202,658	1,044,187	1,893,874	29	1,893,903
Comprehensive income									
– Profit/(loss) for the year		–	–	–	–	233,946	233,946	(1,271)	232,675
Other comprehensive income									
– Exchange difference arising on the translation of foreign operations		–	–	–	(90,080)	–	(90,080)	–	(90,080)
– Fair value change in financial assets at fair value through other comprehensive income		–	–	–	(1,529)	–	(1,529)	–	(1,529)
Total comprehensive income for the year		–	–	–	(91,609)	233,946	142,337	(1,271)	141,066
Transaction with owners									
– Exercise of share grant plan		185	–	3,368	(3,553)	–	–	–	–
– Exercise of share option		2	–	70	(23)	–	49	–	49
– Shares purchase for share award scheme	31(d)	–	(73,501)	–	–	–	(73,501)	–	(73,501)
– Shares vested under share award scheme	31(d)	–	1,429	–	–	–	1,429	–	1,429
– Senior management and employees' share grant scheme and share award scheme	31	–	–	–	17,207	–	17,207	–	17,207
– Appropriation of statutory reserves		–	–	–	4,223	(4,223)	–	–	–
– Dividends paid	14	–	–	–	–	(46,817)	(46,817)	–	(46,817)
– Contribution from non-controlling interests	17(a)	–	–	–	–	–	–	13,992	13,992
Total transactions with owners, recognized directly in equity		187	(72,072)	3,438	17,854	(51,040)	(101,633)	13,992	(87,641)
Balance at December 31, 2018		131,708	(72,072)	518,946	128,903	1,227,093	1,934,578	12,750	1,947,328

Consolidated Statement of Cash Flows

Year Ended December 31, 2018

	Note	2018 USD'000	2017 USD'000
Cash flow from operating activities			
Cash generated from operations	32	**782,961**	209,086
Income tax paid		**(86,045)**	(53,255)
Net cash generated from operating activities		**696,916**	155,831
Cash flow from investing activities			
Payment for the purchase of property, plant and equipment	16	**(118,586)**	(118,669)
Net payment for acquisition of subsidiaries	34	**(870,563)**	(2,115)
Payment for the purchase of intangible assets	17	**(15,897)**	(2,246)
Investments in financial assets at fair value through profit or loss		**(706)**	—
Proceeds from disposal of property, plant and equipment	32	**8,389**	7,713
Investments in associates		**—**	(500)
Decrease in short-term bank deposits		**42,244**	63,221
Interest received		**16,242**	9,770
Investments in financial assets at fair value through other comprehensive income		**(8,253)**	(9,500)
Net cash used in investing activities		**(947,130)**	(52,326)
Cash flow from financing activities			
Proceeds from issuance of ordinary shares		**49**	393,532
Share issuance expenses		**—**	(13,729)
Proceeds from bank borrowings		**2,667,945**	2,842,411
Repayment for bank borrowings		**(1,973,983)**	(2,961,411)
Interest paid		**(12,968)**	(4,757)
Shares purchased for share award scheme		**(73,501)**	—
Contributions from non-controlling interests		**13,992**	—
Dividends paid	14	**(46,817)**	(40,553)
Net cash generated from financing activities		**574,717**	215,493
Net increase in cash and cash equivalents		**324,503**	318,998
Cash and cash equivalents at beginning of the year		**767,554**	414,899
Exchange (losses)/gains on cash and cash equivalents		**(27,233)**	33,657
Cash and cash equivalents at end of the year	26	**1,064,824**	767,554

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 manufacturing and sales of mobile and wireless devices, connectors applied in the communication, computer and automotive markets, and trading and distribution of routers and mobile device related products.

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

2 Summary of significant accounting policies

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 International Accounting Standards Board ("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 financial assets at fair value through other comprehensive income ("FVOCI") and financial assets at fair value through profit and loss ("FVPL") that are measured at fair values.

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)

(a) 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, 2018 and are relevant to the Group's operations.

- Annual Improvements 2014–2016 cycle
- Classification and Measurement of Share-based Payment Transactions Amendments to IFRS 2
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies and make certain adjustments following the adoption of IFRS 9 and IFRS 15 as set out in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(b) Impact of standards issued but not yet applied by the Group

The following new standards, interpretations, amendments and improvements to standards, which may be relevant to the Group, have been issued and are effective after December 31, 2018. The Group has not early adopted them for the year ended December 31, 2018.

		Effective for annual periods beginning on or after
IFRS 16	Leases	January 1, 2019
IFRS 17	Insurance contracts	January 1, 2021
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019
Amendments to IFRS 9	Prepayment features with negative compensation	January 1, 2019
Amendments to IAS 28	Long-term interests in associates and joint venture	January 1, 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sales or contribution of assets between an investor and its associate or joint venture	To be determined

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Impact of standards issued but not yet applied by the Group (continued)

The Group's assessment on the impact of these new standards and revised amendments which are relevant to the Group's operation is set out below.

(i) IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the consolidated balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at December 31, 2018, the Group's future aggregate minimum lease payments under non-cancellable operating leases is approximately USD75,095,000 among which less than one year is USD42,196,000 and more than one year is USD32,899,000. 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). Short-term leases of less than twelve months and leases of low-value assets are exempted from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. Operating expenses under otherwise identical circumstances will decrease, and depreciation and interest expense will increase. It is expected that certain portion of these lease commitments will be required to be recognized in the consolidated balance sheet as right of use assets and lease liabilities.

The Group expects to recognize the right-of-use assets and lease liabilities for the non-cancellable operating lease commitments which are more than one year. The Group expects no material impact to the consolidated income statement.

Date of adoption by the Group

Mandatory for financial years commencing on or after January 1, 2019.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on any foreseeable future transactions.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" ("IFRS 9") and IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") on the Group's financial information and the new accounting policies as disclosed in Note 2.10 and Note 2.25 that have been applied from January 1, 2018, where they are different to those applied in prior periods.

(a) IFRS 9 — Impact on the financial statements of the Group

As a result of the changes in the Group's accounting policies, as explained below, IFRS 9 was generally adopted without restating any comparative information. Under the transition provision, the adoption of IFRS 9 in the current period resulted in the adjustment for the beginning of financial position at January 1, 2018 as the Group has adopted the accounting policies on financial instruments with effect from January 1, 2018.

(i) Classification and measurement

The impact of these changes on the Group's classification of financial assets is as follows:

	As at January 1, 2018		
	As previously stated	Reclassification under IFRS 9	Restated
	USD'000	USD'000	USD'000
Consolidated balance sheet (extract)			
Available-for-sale financial assets	10,378	(10,378)	—
Derivative financial instruments	5,569	(5,569)	—
Financial assets at fair value through profit or loss	—	5,569	5,569
Financial assets at fair value through other comprehensive income	—	10,378	10,378
	15,947	—	15,947

There is no effect resulting from this reclassification on the Group's equity as both IAS 39 and IFRS 9 require any changes in the fair value of the non-trading unlisted equity securities to be recognized as other comprehensive income in equity.

Derivatives, which are not designated as hedges, are classified as held for trading and accounted for at fair value through profit or loss under IFRS 9. There is no impact on the amounts recognized in relation to these assets from the adoption of IFRS 9.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

(b) IFRS 15 — Impact on the financial statements of the Group

IFRS 15 establishes a comprehensive framework for recognizing revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18 “Revenue” which covered revenue arising from sale of goods and rendering of services, and IAS 11 “Construction contracts” which specified the accounting for construction contracts. The Group has elected to use the modified retrospective approach which means that the cumulative impact of the adoption would be recognized in retained earnings at January 1, 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before January 1, 2018.

(i) Timing of revenue recognition

Previously, revenue from sale of goods was generally recognized at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under IFRS 15, revenue is recognized when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

— When the customer simultaneously receives and consumes the benefits provided by the Group’s performance, as the Group performs;

— When the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— When the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If the contract terms and the Group’s activities do not fall into any of these 3 situations, then under IFRS 15, the Group recognizes revenue for the sale of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs. All directly attributable transportation expenses are classified as “cost of sales” in the consolidated income statement for 2018. To ensure consistent presentation, similar reclassification of corresponding transportation expenses has been made to cost of sales in 2017. The adoption of IFRS 15 does not have a significant impact on the Group’s consolidated balance sheet and results of operation for the year. There is also no material impact on the Group’s retained earnings as at January 1, 2018.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

(b) IFRS 15 — Impact on the financial statements of the Group (continued)

(ii) Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognized only if the Group has an unconditional right to consideration. If the Group recognizes the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

Similarly, a contract liability, rather than a payable, is recognized when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognizes the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis. The impact on the Group's consolidated balance sheet by the application of IFRS 15 as compared to IAS 18 that was previously in effect before the adoption of IFRS 15 is as follows:

	As at January 1, 2018		
	As previously stated	Reclassification under IFRS 15	Restated
	USD'000	USD'000	USD'000
Consolidated balance sheet (extract)			
Current liabilities:			
Trade and other payables and deposit received	944,354	(6,452)	937,902
Contract liabilities	—	6,452	6,452
	944,354	—	944,354

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries

2.3.1 Consolidation

Subsidiaries are all entities (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 fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

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 to the former owners of the acquiree 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. 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 interests in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(a) Business combination (continued)

The excess of the consideration transferred, the amount of any non-controlling interests 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 interests 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 unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interests as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS.

2.3.2 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 Summary of significant accounting policies (continued)

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.

All foreign exchange gains and losses are presented in the consolidated income statement on a net basis within 'Other gains/(losses) — net'.

(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 Summary of significant accounting policies (continued)

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 year in which they are incurred.

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 consolidated balance sheet dates.

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 gains/(losses) — net' in the consolidated income statement.

2 Summary of significant accounting policies (continued)

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 life of 3 years.

(b) Trademarks, Trade names and licenses

Separately acquired trademarks, trade names and licenses are shown at historical cost. Trademarks, trade names and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, trade names 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, trade names and licenses over their estimated useful life of 3–20 years.

(c) Technical knowhow

Technical knowhow, including developed technology, are stated at cost less accumulated amortization and any accumulated impairment losses. Developed technology acquired in a business combination are recognized at fair value at the date of acquisition. Amortization for technical knowhow with finite useful life is recognized on a straight-line basis over the estimated useful life of 4–10 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 is measured as described in Note 2.3.1(a) and Note 2.9. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(e) Customer relationships

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The customer relationships are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of 12 years.

2 Summary of significant accounting policies (continued)

2.8 Intangible assets (continued)

(f) Supplier Relationships

Supplier relationships acquired in a business combination are recognized at fair value at the acquisition date. The supplier relations are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of 5 years.

2.9 Impairment of non-financial assets

Goodwill that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the consolidated balance sheet date.

2.10 Financial assets

(a) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and

- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in 'Other gains/(losses) — net' together with foreign exchange gains and losses. Impairment losses is presented as a separate line item in the consolidated income statement. Interest income from these financial assets is included in finance income using the effective interest method.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in "Other gains/(losses) — net". Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses is presented in "Other gains/(losses) — net" and impairment expenses are presented as a separate line item in the consolidated income statement.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated income statement within "Other gains/(losses) — net" in the year in which it arises.

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(c) **Measurement (continued)**

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'Other gains/(losses) — net' in the consolidated income statements. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) **Impairment**

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.2 details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see Note 3.2 for further details.

(e) **Accounting policies applied until December 31, 2017**

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy as described below.

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(e) Accounting policies applied until December 31, 2017 (continued)

(i) Financial assets at fair value through profit or loss

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. The Group has elected to designate the derivative financial instruments as financial assets at fair value through profit or loss.

(ii) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. The Group's receivables comprise "trade receivables", "deposits and other receivables", "cash and cash equivalents" and "short-term bank deposits" in the consolidated balance sheet.

(iii) 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. The Group's available-for-sale financial assets included wealth management products, which are non-derivatives.

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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. 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 within 'Other gains/(losses) — net' in the year in which they arise. Investment income from financial assets at fair value through profit or loss and available-for-sale is 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)

2.10 Financial assets (continued)

(e) Accounting policies applied until December 31, 2017 (continued)

(iii) Available-for-sale financial assets (continued)

Recognition and measurement (continued)

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

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement as 'Other gains/(losses) — net'.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the consolidated income statement as part of other income.

Impairment

The Group assesses at the consolidated balance sheet date 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.

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 Summary of significant accounting policies (continued)

2.12 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 gains/(losses) — net'.

2.13 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.

2.14 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. See Note 2.10(d) for a description of the Group's impairment policies.

2.15 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.

2.16 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 Summary of significant accounting policies (continued)

2.17 Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognized directly in equity at cost. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 payments are due within twelve months after the consolidated balance sheet date (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 facilities 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 facilities will be drawn down, the fees are capitalized as a pre-payment for liquidity services and amortized over the period of the facilities 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 consolidated balance sheet date.

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 year 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 consolidated 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 profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated 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 be reversed in the future and there is a 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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Employees of the Group 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 contributions are recognized as employee benefit expenses when they are due. Amounts not paid are shown in accruals as a liability in the consolidated balance sheet. The assets of the plans are held separately from the Group in independently administered funds.

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 insurances and other employee social insurance plans. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceilings. The Group's liability in respect of these funds is limited to the contributions payable in each period, and recognized as employee benefit expenses when they are due.

2.22.3 Employee leaves entitlements

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

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

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 (shares or options) of the Group. The fair value of the employee services received in exchange for the grant of the shares and options is recognized as an expense. The total amount to be expensed is determined with reference to the fair value of the shares granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact on 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 on any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the consolidated balance sheet date, the Group revises its estimates of the number of shares and 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 recognizing 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.

When the shares are issued, the 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.

2 Summary of significant accounting policies (continued)

2.24 Provisions and contingent liabilities (continued)

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 an interest expense.

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 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 life of the related assets.

2.26 Revenue recognition

Accounting policies applied from January 1, 2018

Revenue is measured at the fair value of the consideration received and receivable, and represents amounts receivable for goods supplied or service performed, stated net of sales incentives, rebates and returns. 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, as described below. The Group bases its estimates of returns on historical results, taking into considerations the type of customers, the type of transactions and the specifics of each arrangement.

2 Summary of significant accounting policies (continued)

2.26 Revenue recognition (continued)

Accounting policies applied from January 1, 2018 (continued)

Sales of goods

Revenue from the sale of goods directly to the customers is recognized at the point that the control of the goods have passed to the customers, which is primarily upon the acceptance of the products by the customers. Revenue from sale of goods is recognized, net of value-added tax, allowances for estimated returns, sales incentives, rebates, and discounts. The customers have full discretions over the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the goods.

The goods are always sold with retrospective sales incentives and discounts. Revenue from these sales are recognized based on the price specified in the contract, net of the estimated sales incentives and discounts. Accumulated experience is used to estimate and provide for the discount, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability (contra to the trade receivables) is recognized for expected discounts entitled to customers in relation to sales made until the consolidated balance sheet date. No element of financing is deemed present as the sales are made with a credit term of less than 90 days, which is consistent with market practice.

Sales of scrap materials

Revenue from sale of scrap materials arising from production are recognized at the point that the control of the scrap materials passed to the customers.

Sales of services

Service income is recognized when services are provided over time.

Accounting policies applied until December 31, 2017

The Group has applied IFRS 15, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Sales of products

Revenue is measured at the fair value of the consideration received and receivable. Amounts disclosed as revenue are net of rebates and returns. 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 the Group's activity as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Revenue from the sales of products is recognized when significant risks and rewards of ownership of the products are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed.

2 Summary of significant accounting policies (continued)

2.26 Revenue recognition (continued)

Accounting policies applied until December 31, 2017 (continued)

Sales of scrap materials

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

Sales of service

Service income is recognized when services are provided.

2.27 Interest income

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

2.28 Rental income from operating lease

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

2.29 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 statement on a straight-line basis over the period of the lease.

2.30 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.31 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 internationally and is exposed to foreign exchange risk, primarily the Renminbi ("RMB") and New Taiwan Dollar ("NTD"). 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. The Group purchased certain forward exchange contracts to reduce the foreign exchange risk, however, those contracts are accounted for as financial assets at fair value through profit or loss with gains/(losses) recognized in profit or loss.

	2018 USD'000	2017 USD'000
Net profit increase/(decrease)		
NTD against USD		
— Strengthened 5%	4,206	5,959
— Weakened 5%	(4,206)	(5,959)
Net profit increase/(decrease)		
RMB against USD		
— Strengthened 5%	80	1,774
— Weakened 5%	(80)	(1,774)

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk is mainly attributable to its bank balances, bank deposits and bank borrowings. Financial assets and liabilities at variable rates expose the Group to cash flow interest rate risk. During the year ended December 31, 2018, the Group's borrowings at variable rate were mainly denominated in RMB, NTD and USD (2017: same). Financial assets and liabilities at fixed rates expose the Group to fair value interest rate risk. Details of the Group's cash and bank balances, short-term bank deposits and bank borrowings have been disclosed in Notes 26 and 29 to the consolidated financial statements.

As at December 31, 2018, if the interest rates on bank balances, short-term bank deposits and bank 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 USD818,000 higher/lower (2017: USD5,201,000 higher/lower), mainly as a result of higher/lower interest income on bank balances and bank deposits.

3 Financial risk management (continued)

3.2 Credit risk

The Group is exposed to credit risk in relation to its trade and other receivables and cash at banks. The carrying amounts of trade and other receivables, cash and cash equivalents and short-term bank deposits represent the Group's maximum exposure to credit risk in relation to financial assets.

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

Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available and supportive forward-looking information.

Other receivables

As at December 31, 2018, the Group has considered the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis for the year. To assess whether there is a significant increase in credit risk the Group considered the actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations. The Group determined the expected loss rate for other receivables was immaterial and no loss allowance for other receivables was recognized.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Group 1	Standard Poor's, Fitch's, or Moody's rating of A-level, or rated as A-level in accordance with the Group's credit policies for those that have no external credit ratings	Lifetime expected losses
Group 2	Standard Poor's or Fitch's rating of BBB, Moody's rating of Baa, or rated as B or C-level in accordance with the Group's credit policies for those that have no external credit ratings	Lifetime expected losses
Group 3	Standard Poor's or Fitch's rating of BB+ and below, or Moody's rating of Ba1 and below	Lifetime expected losses
Group 4	Rated as other than A, B, or C in accordance with the Group's credit policies for those that have no external credit ratings	Lifetime expected losses

3 Financial risk management (continued)

3.2 Credit risk (continued)

Other receivables (continued)

As at December 31, 2018, the loss allowance for trade receivables was determined as follows, the expected credit losses below also incorporated forward-looking information.

	Group 1	Group 2	Group 3	Group 4	Total USD'000
December 31, 2018					
Expected loss rate	0.03%	0.07%	1.37–9.38%	1.67–10.98%	
Gross carrying amount — trade receivables (US$'000)	602,464	167,186	121,083	47,303	938,036
Loss allowance (US$'000)	(162)	(117)	(1,264)	(1,358)	(2,901)

In the prior year, for trade receivables, 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 25 for aging analysis. Management makes 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.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each year. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the consolidated balance sheet date with the risk of default as at the date of initial recognition.

The credit quality of the amounts due from related parties and other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables and the amounts due from related parties is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the amounts due from related parties and other receivables excluding prepayments is assessed to be close to zero and no provision was made as at December 31, 2018.

3 Financial risk management (continued)

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 consolidated balance sheet date:

	2018 USD'000	2017 USD'000
Floating rate		
Expiring within one year (bank overdraft and bill facility)	**989,401**	296,127

(ii) Maturities of financial liabilities

The table 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 including interest payments computed using contractual rates. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months USD'000	**Total contractual cash flows USD'000**	**Carrying amount USD'000**
At December 31, 2018			
Trade payables and other payables	**1,089,266**	**1,089,266**	**1,089,266**
Borrowings	**991,865**	**991,865**	**991,865**
At December 31, 2017			
Trade payables and other payables	848,088	848,088	848,088
Borrowings	296,956	296,956	296,956

3 Financial risk management (continued)

3.4 Capital risk management

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

The Group's monitors capital by reviewing the capital structure regularly. 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 and return of 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" shown in the consolidated financial statements plus net debts.

The gearing ratios at December 31, 2018 and 2017 are as follows:

	2018 **USD'000**	2017 USD'000
Bank borrowings (Note 29)	**989,401**	296,127
Less: cash and cash equivalents (Note 26)	**(1,064,824)**	(767,554)
Net surplus cash	**(75,423)**	(471,427)
Total equity	**1,947,328**	1,893,903
Net debts	**—**	—
Total capital	**1,947,328**	1,893,903
Gearing ratio	**Not applicable**	Not applicable

3 Financial risk management (continued)

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 receivables, deposits and other receivables excluding prepayments, 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 analyzes the Group's financial instruments carried at fair values as at December 31, 2018 and 2017 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).

	2017			
	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Derivative financial instruments	—	5,569	—	5,569
Available-for-sale financial assets-equity securities	—	—	10,378	10,378
	—	5,569	10,378	15,947

	2018			
	Level 1 USD'000	**Level 2 USD'000**	**Level 3 USD'000**	**Total USD'000**
Financial assets				
Financial assets at fair value through profit or loss	**706**	**441**	**—**	**1,147**
Financial assets at fair value through other comprehensive income	**—**	**—**	**17,102**	**17,102**
	706	**441**	**17,102**	**18,249**

3 Financial risk management (continued)

3.5 Fair value estimation (continued)

There were no transfers between level 1, 2 and 3 during the years.

The fair values of the financial assets at fair value through other comprehensive income within level 3 of the fair value hierarchy are determined by using various applicable valuation techniques or by referencing to the recent equity transactions.

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 Estimated useful lives of intangible assets excluding goodwill

The Group has completed several businesses acquisitions and acquired a number of intangible assets. As at December 31, 2018, the total carrying amounts of the intangible assets, excluding goodwill amounted to USD344,528,000 (2017: USD10,875,000). The Group estimates the useful life of the intangible assets based on the current contracted or expected usages periods, and the expected obsolescence of such assets. However, the actual useful life may be shorter or longer depending on technical innovations and competitor actions. The estimated useful economic lives reflect the Group's expectation of the period over which the Group will continue to receive economic benefit from the intangible assets. The economic lives are periodically reviewed taking into consideration such factors as changes in technology and markets. Any changes to economic lives might have material impact to the Group's results and financial position.

4 Critical accounting estimates and judgments (continued)

4.3 Purchase price allocation in business combination

The Group recognizes identifiable assets and liabilities at fair value at the date of acquisition. In applying the acquisition method, the Group recognizes the goodwill with the excess of the acquisition cost over the fair values of the identified net assets of acquirees. The accounting for business combination involves the use of significant management judgment and estimates including identifying assets acquired and the liabilities assumed and the determination of their corresponding fair values. Management engages an independent professional valuer to assist in performing the purchase price allocation exercise on the fair values of assets acquired and liabilities assumed as at the acquisition date, which involves significant management judgement and estimations in the determination of valuation parameters including discount rates, royalty rates, useful lives of intangible assets and the assumptions in the operating and financial performance including revenue growth rates.

Details of key assumptions are disclosed in Note 34(a).

4.4 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 year in which such estimate has been changed. Management reassesses these estimates at each consolidated balance sheet date.

4.5 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 year 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 year in which such estimate is changed.

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 will not reverse in the foreseeable future (Note 21).

4 Critical accounting estimates and judgments (continued)

4.6 Impairment of financial assets

For trade receivables (excluding non-financial assets), the Group applies the simplified approach to provide for expected credit losses as prescribed by IFRS 9, which requires the use of the lifetime expected loss allowance for all trade receivables (excluding non-financial assets). The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the consolidated balance sheet date. Management reassesses the provision at each consolidated balance sheet date.

5 Segment information

In September 2018, the Group acquired Belkin International Inc. ("Belkin") (Note 34(a)), and Belkin is principally engaged in trading and distribution of routers and mobile device related products. Given the Belkin's business only become part of the Group for a short period of time, and its financial information is not material to the Group for the year, management advised that there is no material change in the structure of internal reporting in a manner that causes the composition of its reportable segments to change for the current year. Thus, the Group remains to operate as a single operating segment for the current year. The operating segment is reported in the manner consistent with the internal reporting provided to the Chief Operating Decision Makers ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that 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 services of connectors, case, thermal module, wired/wireless communication products, networking products, optical products, power supply modules, and assemblies for use in the Information Technology ("IT"), communications, automotive equipment, precision molding, automobile, home automation solution, 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, Australia, the PRC, the United States of America and the Europe.

5 Segment information (continued)

During the year ended December 31, 2018, revenue by geographical areas is as follows:

	2018 USD'000	2017 USD'000
Mainland China	**1,369,015**	1,278,511
Taiwan	**326,093**	236,093
Hong Kong	**253,376**	161,602
United States of America	**1,455,207**	1,244,907
Singapore	**150,637**	142,689
Others	**451,307**	335,001
	4,005,635	3,398,803

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, financial asset at fair value through other comprehensive income and deferred income tax assets) is as follows:

	2018 USD'000	2017 USD'000
Mainland China	**475,545**	582,585
Taiwan	**10,241**	4,350
United States of America	**27,588**	15,042
Singapore	**65,958**	59,412
Vietnam	**43,870**	50,427
Others	**16,886**	4,234
	640,088	716,050

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, 2018, there were two customers (2017: two customers) which individually contributed over 10% of the Group's total revenue. During the year, the revenue contributed from these customers are as follows:

	2018 USD'000	2017 USD'000
Customer A	**1,090,086**	986,911
Customer B	**1,063,633**	796,976

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

	2018 USD'000	2017 USD'000
Sales of goods	**3,933,543**	3,320,974
Provision of services	**15,847**	27,195
Sales of scrap materials	**56,245**	50,634
	4,005,635	3,398,803

Sales of goods and scrap materials are recognized at point in time and provision of services is recognized over time as disclosed in Note 2.26.

The Group has recognized following liabilities related to contracts with customers:

	2018 USD'000
Contract liabilities — sales of goods	**6,025**

6 Revenue (continued)

The following table shows how much of the revenue recognized for the year ended December 31, 2018 related to carried-forward contract liabilities.

	2018 USD'000
Sales of goods	6,452

7 Other income

	2018 USD'000	2017 USD'000
Rental income from properties	6,057	6,034
Government grant income	9,211	8,523
Others	4,556	4,667
	19,824	19,224

8 Other gains/(losses) — net

	2018 USD'000	2017 USD'000
Net foreign exchange gains/(losses)	24,406	(26,231)
Net fair value gains on forward contracts	—	8,431
Net fair value losses on financial assets at fair value through profit or loss	(3,825)	—
Net gains on disposal of property, plant and equipment	1,913	1,244
Fair value gains on available-for-sale financial assets	—	590
Fair value gains from revaluation of interests in associate upon acquisition as a subsidiary (Note 19)	133	—
Others	(1,657)	1,062
	20,970	(14,904)

9 Expenses by nature

	2018 USD'000	2017 USD'000
Cost of inventories	**2,109,008**	1,794,817
Employee benefit expenses (Note 10)	**604,074**	566,864
Subcontracting expenses	**325,825**	253,486
Depreciation of property, plant and equipment (Note 16)	**186,776**	181,519
Moulding and consumables	**152,977**	116,755
Utilities	**50,280**	50,072
Professional expenses	**38,028**	25,972
Delivery expenses	**41,987**	29,166
Operating lease expenses	**23,419**	19,858
Listing expenses	**—**	3,341
Net impairment losses on financial assets	**1,697**	—
Impairment of trade receivables	**—**	1,597
Amortization of intangible assets (Note 17)	**13,811**	1,572
Auditor's remuneration	**1,350**	750
Amortization of land use rights (Note 15)	**588**	575
Others	**188,057**	136,953
Total cost of sales, distribution cost and selling expenses, administrative expenses and research and development expenses	**3,737,877**	3,183,297

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

	2018 USD'000	2017 USD'000
Salaries, wages and bonuses	**524,616**	490,773
Pension, housing fund, medical insurance and other social insurances	**34,748**	33,063
Share-based payment expenses (Note 31)	**18,636**	23,056
Staff welfare and other benefits	**26,074**	19,972
	604,074	566,864

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

(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, 2017					
Executive Director					
Lu, Sungching	—	3,341	8	17,595	20,944
Lu, Pochin Christopher	458	1,500	—	—	1,958
William Ralph Gillespie	—	1,112	36	—	1,148
Non-Executive Director					
Chen, Galane (Note 1)	—	—	—	—	—
Independent Non-Executive Director					
CURWEN Peter D	75	—	—	—	75
TANG Kwai Chang	75	—	—	—	75
CHAN, Wing Yuen Hubert	75	—	—	—	75
	683	5,953	44	17,595	24,275

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, 2018					
Executive Director					
Lu, Sungching	—	3,720	—	9,334	13,054
Lu, Pochin Christopher	—	3,700	—	—	3,700
William Ralph Gillespie	—	1,109	44	204	1,357
Non-Executive Director					
Chen, Galane	—	501	39	60	600
Independent Non-Executive Director					
CURWEN Peter D	75	—	—	—	75
TANG Kwai Chang	75	—	—	—	75
CHAN, Wing Yuen Hubert	75	—	—	—	75
	225	9,030	83	9,598	18,936

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 (2017: Nil).

Note 1: The emoluments of a director of the Company, Chen Galane, was borne by Hon Hai Group.

(b) Directors' retirement benefits

During the year ended December 31, 2018 (2017: Nil), 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 year ended December 31, 2018 (2017: Nil).

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

(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 year ended December 31, 2018 (2017: Nil).

(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 year ended December 31, 2018 (2017: Nil).

(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 year ended December 31, 2018 (2017: Nil).

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include three directors for the year ended December 31, 2018 (2017: three), and their emoluments are reflected in the analysis shown in Note 10(a). The emoluments payable to the remaining two (2017: two) individuals during the year ended December 31, 2018 are as follows:

	2018 **USD'000**	2017 USD'000
Salaries, wages and bonuses	**1,677**	1,569
Pension, housing fund, medical insurance and other social insurances	**55**	116
Share-based payment expenses (Note 31)	**116**	—
	1,848	1,685

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:

	2018	2017
Emoluments bands:		
USD800,001 to USD900,000	1	2
USD900,001 to USD1,000,000	—	—
USD1,000,001 to USD1,100,000	1	—
	2	2

During the year ended December 31, 2018, 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

	2018 USD'000	2017 USD'000
Finance income:		
— Interest income on short-term bank deposits and cash equivalents	16,242	9,770
Finance costs:		
— Interest expense on bank borrowings	(13,325)	(4,757)
Finance income — net	2,917	5,013

12 Income tax expense

The amounts of income tax expense charged/(credited) to the consolidated income statements represent:

	2018 USD'000	2017 USD'000
Current income tax		
— Current taxes on profits for the year	**81,455**	52,432
— Under provision in prior years (note (a))	**23,933**	689
Deferred income tax (Note 21)	**(26,701)**	(9,053)
Income tax expense	**78,687**	44,068

(a) PRC corporate income tax

The corporate income tax ("CIT") is calculated based on the statutory profit of PRC subsidiaries in accordance with the PRC tax laws and regulations. The standard PRC CIT rate is 25% (2017: 25%).

Two PRC subsidiaries of the Group are qualified for new/high-technology enterprises status and enjoyed preferential income tax rate of 15% (2017:15%) during the year.

One of the PRC subsidiaries of the Group 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, 2018 (2017: 15%).

Under provision in prior years

During the year ended December 31, 2018, the Group made payments of USD27,078,000 covering tax liability of a wholly owned subsidiary relating to profits earned over a number of years prior to the completion of the group reorganization in 2014.

(b) Taiwan profit-seeking enterprise income tax

Taiwan profit-seeking enterprise income tax has been provided for at the rate of 20% (2017: 17%) on the estimated taxable income during the year.

12 Income tax expense (continued)

(c) Singapore corporate income tax

During the year ended December 31, 2018, a Singapore incorporated subsidiary of the Group has been awarded the incentives for the establishment of pioneer industries and for economic expansion, profits generates from Development and Expansion Incentives activities ("DEI") will be taxed at 5% while the non-DEI activities are calculated at the rate of 17%.

For the year ended December 31, 2017, Singapore corporate income tax is calculated at the rate of 17% on the chargeable income of the subsidiaries incorporated in Singapore in accordance with Singapore Income Tax Act.

(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.

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:

	2018 **USD'000**	2017 USD'000
Profit before income tax	**311,362**	224,554
Tax calculated at domestic tax rate applicable to profits in the respective countries	**57,342**	41,639
Tax effect of:		
Expenses not deductible for tax purpose	**928**	270
Income not subject to income tax	**(681)**	—
Tax losses not recognized	**—**	1,470
Changes of applicable tax rate in Taiwan	**(2,835)**	—
Under-provision in prior years — net	**23,933**	689
	78,687	44,068

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, 2018.

	2018	2017
Net profit attributable to the owners of the Company (USD'000)	**233,946**	180,490
Weighted average number of ordinary shares in issue (in thousands)	**6,676,202**	6,117,712
Basic earnings per share (US cents)	**3.50**	2.95

(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 year ended December 31, 2018, the Group has two categories of dilutive potential ordinary shares (2017: two categories).

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.

	2018	2017
Net profit attributable to the owners of the Company (USD'000)	**233,946**	180,490
Weighted average number of ordinary shares in issue (in thousands)	**6,676,202**	6,117,712
Adjustments for:		
— impact of the senior management and employees' share grant schemes (in thousands)	**308,787**	316,484
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**6,984,989**	6,434,196
Diluted earnings per share (US cents)	**3.35**	2.81

14 Dividends

	2018 USD'000	2017 USD'000
Dividends	**60,233**	40,553

A final dividend in respect of the financial year ended December 31, 2018 of HK$0.07 per share, amounting to a total dividend of HK$472,048,000, approximately USD60,233,000 , is to be proposed at the forthcoming Annual General Meeting. The amount of proposed final dividend is based on 6,743,536,888 shares in issue as at March 26, 2019. 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:

	2018 USD'000	2017 USD'000
At beginning of the year	**21,850**	21,027
Amortization of land use rights	**(588)**	(575)
Exchange difference arising on the translation of foreign operations	**(1,118)**	1,398
At end of the year	**20,144**	21,850

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, 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 a subsidiary	—	—	15	—	—	—	15
Disposals	(840)	(4,651)	(765)	(213)	—	—	(6,469)
Depreciation	(30,112)	(74,336)	(27,487)	(46,588)	(2,996)	—	(181,519)
Exchange difference arising on the translation of foreign operations	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)

	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, 2018							
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
Year ended December 31, 2018							
Opening net book amount	229,793	257,000	38,454	50,250	13,405	86,981	675,883
Transfers	1,256	11,998	1,040	76,711	279	(91,284)	—
Additions	—	36,091	20,983	1,933	—	59,579	118,586
Acquisition of subsidiaries (Note 34)	21	7,180	10,068	5,931	—	1,458	24,658
Disposals	—	(5,918)	(549)	(9)	—	—	(6,476)
Depreciation	(22,439)	(68,668)	(25,266)	(65,642)	(4,761)	—	(186,776)
Exchange difference arising on the translation of foreign operations	(10,645)	(9,362)	(1,936)	(1,647)	(76)	(2,873)	(26,539)
Closing net book amount	197,986	228,321	42,794	67,527	8,847	53,861	599,336
As at December 31, 2018							
Cost	474,824	688,218	230,487	218,500	16,774	53,861	1,682,664
Accumulated depreciation	(276,838)	(459,897)	(187,693)	(150,973)	(7,927)	—	(1,083,328)
Net book amount	197,986	228,321	42,794	67,527	8,847	53,861	599,336

16 Property, plant and equipment (continued)

Depreciation of property, plant and equipment has been charged to the consolidated income statement (Note 9) as follows:

	2018 USD'000	2017 USD'000
Cost of sales	**164,715**	167,159
Distribution costs and selling expenses	**307**	198
Administrative expenses	**10,637**	3,302
Research and development expenses	**11,117**	10,860
	186,776	181,519

17 Intangible assets

	Software USD'000	Licenses USD'000	Knowhow knowledge USD'000	Goodwill USD'000	Total USD'000
As at January 1, 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 a subsidiary	—	—	2,098	3,074	5,172
Amortization	(164)	(1,408)	—	—	(1,572)
Exchange difference arising on the translation of foreign operations	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

17 Intangible assets (continued)

	Trademarks and tradename USD'000	Customer relationships and others (Note a) USD'000	Software USD'000	Licenses USD'000	Technical Knowhow USD'000	Goodwill USD'000	Total USD'000
As at January 1, 2018							
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
Year ended December 31, 2018							
Opening net book amount	—	—	644	8,133	2,098	3,074	13,949
Additions	—	—	1,494	14,403	—	—	15,897
Acquisition of subsidiaries	143,600	58,200	2,296	—	128,207	443,356	775,659
Amortization	(2,131)	(542)	(848)	(3,800)	(6,490)	—	(13,811)
Exchange difference arising on the translation of foreign operations	—	—	(2)	(278)	(456)	—	(736)
Closing net book amount	141,469	57,658	3,584	18,458	123,359	446,430	790,958
As at December 31, 2018							
Cost	143,600	58,200	4,976	32,593	130,305	446,430	816,104
Accumulated amortization	(2,131)	(542)	(1,392)	(14,135)	(6,946)	—	(25,146)
Net book amount	141,469	57,658	3,584	18,458	123,359	446,430	790,958

17 Intangible assets (continued)

(a) Additions for technical knowhow for the year included intangible assets of USD13,805,000 purchased from Sharp Corporation ("Sharp"), an associate of Hon Hai . The subsidiary of the Group is granted a right to develop, assemble and manufacture certain types or models of automotive cameras and electronic mirrors by using this know-how knowledge until December 31, 2023.

(b) On May 28, 2018, the Group entered into the Business and Property Transfer Agreement with Hon Hai Precision Industry Co., Ltd., the ultimate holding company, and fellow subsidiaries (collectively, the Vendors), pursuant to which the Group purchased the automotive electronics businesses of the Vendors for a total cash consideration of NTD500,000,000 (approximately USD16,752,000). The Group has identified the technology to assemble and manufacture specific products as intangible assets acquired from the Vendors at the value of USD8,107,000 (Note 34(b)).

(c) On September 20, 2018, the Group completed the acquisition of Belkin International Inc. for a total consideration of USD879,944,000. The Group has identified the developed technology, trademarks and trade name, customer relationships, supplier relationships and computer software as intangible assets acquired at an aggregated value of USD324,196,000 (Note 34(a)).

(d) Goodwill

The balance mainly include the provisional goodwill of USD441,509,000 arising from the acquisition of Belkin International Inc. ("Belkin") with reference to valuation report prepared by an independent valuer. For details of significant assumptions and valuation models adopted in the valuation report, please refer to Notes 4 and 34(a). The Directors conclude that there is no impairment on the goodwill arising from the acquisition of Belkin after the completion of the acquisition and up to December 31, 2018.

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

	2018 **USD'000**	2017 USD'000
Cost of sales	**9,065**	1,408
Distribution costs and selling expenses	**57**	—
Administrative expense	**4,442**	164
Research and development expenses	**247**	—
	13,811	1,572

18 Interests in subsidiaries

The Company's subsidiaries at December 31, 2018 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:

	2018 USD'000	2017 USD'000
At beginning of the year	1,161,447	960,941
Acquisition of and capital injection to subsidiaries	880,364	200,506
At end of the year	2,041,811	1,161,447

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 2018 %	Ownership interest held by the Group 2017 %	Ownership interest held by non-controlling interests 2018 %	Ownership interest held by non-controlling interests 2017 %
富士康(昆山)電腦接插件有限公司 ("Foxconn Computer Connectors (Kunshan) Co., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in 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.")*	PRC, limited liability company	Production of interconnect solutions and related products in 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.")*	PRC, limited liability company	Production of interconnect solutions and related products in 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.")*	PRC, limited liability company	Production of interconnect solutions and related products in 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.")*	PRC, limited liability company	Sale of interconnect solutions and related products in PRC	RMB30,000,000	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 and debt securities	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2018 %	2017 %	2018 %	2017 %
富譽電子科技(淮安)有限公司 ("Fu Yu Electronics Technology (Huaian) Co., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD266,200,000	**100**	100	**–**	–
淮安安亞貿易有限公司 ("An Ya Trading (Huaian) Co., Ltd.")*	PRC, limited liability company	Sale of interconnect solutions and related products in 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.")*	PRC, limited liability company	Sale of interconnect solutions and related products in 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.")*	PRC, limited liability company	Structure cabling, installation and maintenance of intelligent control system in PRC	RMB1,000,000	**80**	80	**20**	20
重慶市鴻騰科技有限公司 ("Chongqing Hon Teng Technology Co., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in 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.")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD5,000,000	**100**	100	**–**	–
淮安富啟電子科技有限公司 ("Fu Qi Electronics Technology Co., Ltd")*	PRC, limited liability company	Production of interconnect solutions and related products in 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	922,389,961 ordinary shares of USD1 each as at 2017 and 1,066,509,441 ordinary shares of USD1 each as at 2018	**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 2018 %	Ownership interest held by the Group 2017 %	Ownership interest held by non-controlling interests 2018 %	Ownership interest held by non-controlling interests 2017 %
昆山安亞鴻貿易有限公司 ("An Ya Hong Trading (Kunshan) Co., Ltd.")*	PRC, limited liability company	Sale of interconnect solutions and related products in 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	**–**	–
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	Japanese Yen 10,000,000	**100**	100	**–**	–
Foxteq (UK) Ltd.	United Kingdom, limited liability company	Sale of interconnect solutions and related products in the UK	Great British Pound 100,000	**100**	100	**–**	–
Foxconn Korea Ltd.	Korea, limited liability company	Sale of interconnect solutions and related products in Korea	USD780,000	**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 2018 %	Ownership interest held by the Group 2017 %	Ownership interest held by non-controlling interests 2018 %	Ownership interest held by non-controlling interests 2017 %
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 USD1 each	**100**	100	**–**	–
FIT Optoelectronica de Mexico S.de R.L.de C.V.	Mexico, limited liability company	Production of interconnect solutions and related products in Mexico	Mexican Peso 10,095,897	**100**	100	**–**	–
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	**–**	–
FIT Electronics Device Pte. Ltd.	Singapore, limited liability company	Production, research and development of automotive cameras and electronic mirrors	USD 28,173,000	**51**	–	**49**	–
深圳安亞貿易有限公司 (“An Ya Trading (Shenzhen) Co., Ltd.”)*	PRC, limited liability company	Sale of interconnect solutions and related products in 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	Vietnam Dong 1,802,100,000.00	**100**	100	**–**	–
Retrofit One Limited Partnership	Cayman Islands, limited liability company	Investment holding	3,800,001 ordinary shares of USD1 each	**100**	100	**–**	–
XingFox Cayman	Cayman Islands, limited liability company	Research and development and manufacturing of batteries	2,478,185 ordinary shares of USD1 each	**100**	100	**–**	–
Belkin International, Inc.	USA, corporation	Sale of consumer electronics and connectivity solutions products in North America	93,667 shares of USD 0.0001 each	**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 2018 %	Ownership interest held by the Group 2017 %	Ownership interest held by non-controlling interests 2018 %	Ownership interest held by non-controlling interests 2017 %
Belkin, Inc.	USA, corporation	Sale of consumer electronics and connectivity solutions products in North America	10,000 shares of USD 0.0001 each	**100**	–	**–**	–
Belkin Limited	UK, limited liability company	Sale of consumer electronics and connectivity solutions products in EMEA.	2,010,000 shares of GBP 1 each	**100**	–	**–**	–
Belkin Limited	Australia, limited liability company	Sale of consumer electronics and connectivity solutions products Australia	7,100,000 shares of Australian dollar 1 each	**100**	–	**–**	–
Belkin KK	Japan, corporation	Sale of consumer electronics and connectivity solutions products in Japan	JPY 10,000,000	**100**	–	**–**	–
Belkin B.V.	Netherland, corporation	Investment holding	EURO 20,000	100	–	**–**	–
Belkin Hong Kong Limited	Hong Kong, limited liability company	Sourcing center in Asia Pacific	2 shares of HKD1,200,000	**100**	–	**–**	–
Belkin Asia Pacific Limited Ltd.	Hong Kong, limited liability company	Sale of consumer electronics and connectivity solutions products in Asia Pacific	USD 99,851	**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	
				2018	2017	**2018**	2017
				%	%	**%**	%
貝爾金電器(常州)有限公司 ("Belkin Electronics (Changzhou) Co, Ltd.")	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD 1,425,000	**100**	–	**–**	–
Linksys Pte. Ltd.	Singapore, limited liability company	Sale of consumer electronics and connectivity solutions products in Singapore	USD 17,033,794	**100**	–	**–**	–
Hong Yang Intelligent Technology Co., Ltd.	Taiwan, limited liability company	Manufacturing of metal processing machinery and equipment	USD 800,000	**70**	45	**30**	–

* for identification purpose only

19 Interests in associates

	2018 USD'000	2017 USD'000
At beginning of the year	**6,546**	1,331
Additions	**–**	860
Transfer from available-for-sale financial assets (Note 20)	**–**	4,640
Share of results	**(107)**	(285)
Transfer to interests in subsidiaries	**(240)**	–
At end of the year	**6,199**	6,546

During the year ended December 31, 2018, the Group further invested USD207,000 to Hong Yang Intelligent Technology Co., Ltd. ("Hong Yang") and obtained 70% of the issued share capital of Hong Yang. Hong Yang is subsequently recognized as a subsidiary of the Group.

Set out below are the particulars of the associates of the Group as at December 31, 2018 and 2017.

Name of entity	Place of establishment	% of ownership interest as at		Nature of business	Carrying amount	
		December 31, 2018	December 31, 2017		**2018 USD'000**	2017 USD'000
Blu-castle, S.A.	Luxembourg	**35.00%**	35.00%	Supply of telecommunication equipment and software	**1,970**	1,626
Prenosis Inc.	United States of America	**25.51%**	25.06%	Development of health care related solution	**4,229**	4,560
Hong Yang Intelligent Technology Co., Ltd.	Taiwan	**–**	45.00%	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 Financial assets at fair value through other comprehensive income

The financial assets at fair value through other comprehensive income (classified as available-for-sale financial assets as at December 31, 2017) represents the Group's investment in private company.

(i) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income ("FVOCI") comprise equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognize in this category. These are strategic investments and the Group considers this classification to be more relevant.

(ii) Equity investment at fair value through other comprehensive income

FVOCI include the following:

	2018	2017
	USD'000	USD'000
Non-current assets		
Equity investments in other entities		
United States of America	**13,555**	—
France	**2,826**	—
Taiwan	**721**	—
	17,102	—

In the prior year, the Group had designated equity investments as available-for-sale where management intended to hold them for the medium to long-term under IAS 39.

(iii) Financial assets previously classified as available-for-sale financial assets (2017)

Available-for-sale financial assets include the following classes of financial assets:

	2018	2017
	USD'000	USD'000
Non-current assets		
Unlisted securities:		
— Equity securities — United States of America	**–**	6,000
— Equity securities — Europe	**–**	4,378
	–	10,378

20 Financial assets at fair value through other comprehensive income (continued)

(iii) Financial assets previously classified as available-for-sale financial assets (2017) (continued)

The financial assets were presented as non-current assets unless they matured, or management intended to dispose of them within 12 months from the consolidated balance sheet date.

Financial assets at fair value through other comprehensive income and available-for-sale financial assets are denominated in the following currencies:

	2018 USD'000	2017 USD'000
USD	**13,555**	6,000
EURO	**2,826**	4,378
NTD	**721**	—
	17,102	10,378

21 Deferred income tax assets and liabilities

	2018 USD'000	2017 USD'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**108,786**	28,238
Deferred income tax liabilities:		
— to be recovered after more than 12 months	**(75,023)**	(1,213)

21 Deferred income tax assets and liabilities (continued)

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	Foreign tax credit and alternative minimum tax credit USD'000	Research and development credit USD'000	Unrealized profits USD'000	Impairment provision USD'000	Decelerated tax depreciation USD'000	Provision for employee benefits USD'000	Others USD'000	Total USD'000
As at January 1, 2017	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
Acquisition of subsidiaries	9,898	14,902	17,458	—	3,923	1,504	6,439	7,193	61,317
Recognized in the consolidated income statement	2,050	100	609	1,383	(72)	11,198	3,047	916	19,231
At December 31, 2018	**11,948**	**15,002**	**18,067**	**4,751**	**6,315**	**17,089**	**27,505**	**8,109**	**108,786**

21 Deferred income tax assets and liabilities (continued)

Deferred income tax liabilities

	Accelerated tax depreciation USD'000	Fair value adjustment on non-current assets arising from acquisition USD'000	Others USD'000	Total USD'000
As at January 1, 2017	—	—	(1)	(1)
Recognized in the consolidated income statement	(1,213)	—	1	(1,212)
At December 31, 2017	(1,213)	—	—	(1,213)
Recognized in the consolidated income statement	7	7,463	—	7,470
Acquisition of subsidiaries	—	(81,280)	—	(81,280)
At December 31, 2018	**(1,206)**	**(73,817)**	**—**	**(75,023)**

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, 2018, deferred income tax liabilities of USD58,635,000 (2017: USD57,318,000) 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 USD586,354,000 as at December 31, 2018 (2017: USD573,182,000), 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 USD361,000 (2017: USD2,821,000) in respect of tax losses of approximately USD1,588,000 as at December 31, 2018 (2017: USD11,284,000) respectively, that can be carried forward against future taxable income and the losses are subject to expiry period of five years.

22 Inventories

	2018 USD'000	2017 USD'000
Raw materials	**156,375**	146,221
Work in progress	**97,027**	97,204
Finished goods	**424,886**	307,339
	678,288	550,764
Less: provision for impairment	**(28,580)**	(22,438)
	649,708	528,326

The cost of inventories recognized as expenses and included in "cost of sales" amounted to approximately USD2,109,284,000 for the year ended December 31, 2018 (2017: USD1,881,673,000) respectively, including provision for impairment of inventories amounted to USD276,000 for the year ended December 31, 2018 (2017: USD8,066,000).

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:

	2018 USD'000	2017 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.

The aggregate notional principal amount of outstanding currencies forward contracts as at December 31, 2017 was US$400,000,000. The maturity date of these currencies forward contracts ranged between January and July 2018.

24 Financial assets at fair value through profit or loss

	2018 USD'000	2017 USD'000
Currencies forward contracts	**441**	—
Equity instruments	**706**	—
	1,147	—

The aggregate notional principal amount of outstanding currencies forward contracts as at December 31, 2018 was US$160,000,000. The maturity date of these currencies forward contracts is in June 2019. 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 currencies forward contracts and equity investments are measured at fair value with reference to the market value.

25 Trade receivables, deposits, prepayments and other receivables

	2018 USD'000	2017 USD'000
Trade receivables due from third parties	**620,623**	662,114
Trade receivables due from related parties (Note 35(b))	**317,413**	330,920
Less: loss allowance for impairment of trade receivables	**(2,901)**	—
Total trade receivables — net	**935,135**	993,034
Other receivables	**20,027**	13,306
Amounts due from related parties (Note 35(b))	**4,586**	7,016
Value-added tax receivable and recoverable	**36,532**	33,435
Deposits and prepayments	**48,836**	26,882
	1,045,116	1,073,673
Less: Non-current portion:		
— Deposits, prepayments and other receivables	**(14,409)**	(11,771)
Current portion	**1,030,707**	1,061,902

Amounts due from related parties are unsecured, interest-free, and with credit term of 180 days.

25 Trade receivables, deposits, prepayments and other receivables (continued)

As at December 31, 2018, 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, 2018, the carrying amounts of trade and other receivables are denominated in the following currencies:

	2018 USD'000	2017 USD'000
RMB	**60,701**	69,234
USD	**932,865**	983,248
NTD	**16,138**	12,805
GBP	**11,550**	—
Others	**23,862**	8,386
	1,045,116	1,073,673

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, 2018, is as follows:

	2018 USD'000	2017 USD'000
Trade receivables — gross		
— Within 3 months	**798,063**	865,203
— 3 to 4 months	**116,433**	110,380
— 4 to 6 months	**21,225**	14,963
— 6 to 12 months	**2,170**	1,445
— Over 1 year	**145**	1,043
	938,036	993,034

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the aging from billing. See Note 3.2 for further information about expected credit loss provision. Impairment losses are recognized in consolidated income statement within "administrative expenses". See note 2.10(d) for information about how impairment losses are calculated.

25 Trade receivables, deposits, prepayments and other receivables (continued)

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

	2018 USD'000	2017 USD'000
At beginning of the year	—	652
Provision for impairment of trade receivables	1,697	—
Acquisition of subsidiaries	1,204	—
Written off	—	(652)
	2,901	—

The maximum exposure to credit risk is the carrying amounts of trade receivables and the Group does not hold any collateral as security.

26 Cash and cash equivalents and short-term bank deposits

	2018 USD'000	2017 USD'000
Cash and cash equivalents	1,064,824	767,554
Short-term bank deposits	6,424	48,668
	1,071,248	816,222

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

	2018 USD'000	2017 USD'000
— RMB	321,342	267,314
— USD	715,039	524,260
— Japanese Yen ("JPY")	22,240	11,752
— NTD	7,664	7,038
— Others	4,963	5,858
	1,071,248	816,222

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

As at December 31, 2018, the Group's bank balances of approximately USD506,889,000 and (2017: USD387,748,000) 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.

27 Share capital

	Number of ordinary shares (in thousand)	Amount USD'000
Authorized:		
As at January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018	15,360,000	300,000
Issued and fully paid:		
As at 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 and January 1, 2018	**6,733,855**	**131,521**
Issuance of ordinary shares upon exercise of share option	**9,581**	**187**
As at December 31, 2018	**6,743,436**	**131,708**

Notes:

(a) 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.

28 Reserves

	Share premium and capital reserve	Statutory reserves	Share-based payments reserve	Currency translation differences	Revaluation reserve	Sub-total	Retained earnings	Total
		Other reserves						
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
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 31)	–	–	23,056	–	–	23,056	–	23,056
Exchange difference arising on the translation of foreign operations	–	–	–	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
At January 1, 2018	**515,508**	**55,650**	**99,806**	**48,131**	**(929)**	**202,658**	**1,044,187**	**1,762,353**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**233,946**	**233,946**
Exercise of share grant plan	**3,368**	**–**	**(3,553)**	**–**	**–**	**(3,553)**	**–**	**(185)**
Exercise of share option scheme	**70**	**–**	**(23)**	**–**	**–**	**(23)**	**–**	**47**
Dividends paid (Note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**(46,817)**	**(46,817)**
Appropriation from retained earnings	**–**	**4,223**	**–**	**–**	**–**	**4,223**	**(4,223)**	**–**
Senior management restricted share plan	**–**	**–**	**11,806**	**–**	**–**	**11,806**	**–**	**11,806**
Share option scheme	**–**	**–**	**5,401**	**–**	**–**	**5,401**	**–**	**5,401**
Exchange difference arising on the translation of foreign operations	**–**	**–**	**–**	**(90,080)**	**–**	**(90,080)**	**–**	**(90,080)**
Fair value change in financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**(1,529)**	**(1,529)**	**–**	**(1,529)**
At December 31, 2018	**518,946**	**59,873**	**113,437**	**(41,949)**	**(2,458)**	**128,903**	**1,227,093**	**1,874,942**

29 Bank borrowings

	2018 USD'000	2017 USD'000
Bank borrowings, unsecured	**989,401**	296,127

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

	2018 USD'000	2017 USD'000
RMB	**1,456**	38,400
USD	**870,106**	96,437
NTD	**117,839**	161,290
	989,401	296,127

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

	2018 USD'000	2017 USD'000
12 months or less	**989,401**	296,127

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

	2018 USD'000	2017 USD'000
Bank borrowings, unsecured	**2.74%**	1.62%

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.

30 Trade and other payables

	2018 USD'000	2017 USD'000
Trade payables to third parties	**460,174**	413,356
Trade payables to related parties (Note 35(b))	**261,915**	176,128
Total trade payables	**722,089**	589,484
Amounts due to related parties (Note 35(b))	**109,411**	46,241
Staff salaries, bonuses and welfare payables	**120,716**	89,814
Advance from customers	**—**	6,452
Deposits received, other payables and accruals	**256,790**	212,363
	1,209,006	944,354
Less: Non-current portion	**(18,307)**	(8,644)
Current portion	**1,190,699**	935,710

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

	2018 USD'000	2017 USD'000
RMB	**299,454**	236,984
USD	**833,275**	666,328
NTD	**10,308**	10,241
Others	**65,969**	30,801
	1,209,006	944,354

30 Trade and other payables (continued)

Aging analysis of the trade payables to third parties and related parties at the consolidated balance sheet date is as follows:

	2018 USD'000	2017 USD'000
Within 3 months	**558,571**	520,782
3 to 4 months	**64,257**	59,027
4 to 6 months	**44,870**	8,750
6 to 12 months	**51,483**	257
Over 1 year	**2,908**	668
	722,089	589,484

Amounts due to related parties are unsecured, interest-free, and with credit term of 180 days.

As at December 31, 2018, 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.

31 Share-based payments

During the year ended December 31, 2018, the Group operates four share-based compensation schemes.

(a) Senior management share grant scheme

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 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. 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.

31 Share-based payments (continued)

(a) Senior management share grant scheme (continued)

The weighted average fair value of shares granted under this plan determined using the H-model was USD3.95 per share before the split of each of the existing ordinary share of the Company into 16 shares pursuant to a shareholder's resolution passed on 3 November 2016. 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, 2018 was USD9,334,000 (2017: USD17,595,000).

(b) Employees' share restricted share scheme

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, 2017 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 before the split of each of then existing ordinary share of the Company into 16 shares pursuant to a shareholder's resolution passed on 3 November 2016. 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, 2018 was USD2,471,000 (2017: USD5,461,000).

(c) Share option scheme

On January 18, 2018, the Company granted certain eligible employees an aggregate of 25,705,400 share options at an exercise price of HK$5.338 per share (the "Options") under its share option scheme adopted on December 19, 2017. The Options was vested on April 29, 2018. On May 25, 2018, the Company considered the Options exercise price was comparatively high compared with the market prices, the Company therefore reached a mutual agreement with the eligible employees to unconditionally cancel the Options and offer to grant 24,440,600 new share options (the "New Options") at an exercise price of HK$3.69 per share. The New Options are vested on June 10, 2018. The New Options are exercisable for a period of three years commencing on 11 June 2018. The cancellation of Options and offer of New Options was accounted as a modification to equity-settled share-based payment arrangements in accordance with IFRS 2. Accordingly, the increase in fair value of the New Options measured immediately before and after the modification is recognized on the vesting date.

31 Share-based payments (continued)

(c) Share option scheme (continued)

The fair value of the Options determined using the Black-Scholes model was USD3,860,000. The significant inputs into the model were dividend paid out ratio of 0.89% and the expected volatility. The expected 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 increment of fair value related to the modification under New Options determined using the Black-Scholes model was USD1,500,000. The significant inputs into the model were dividend paid out ratio of 0.89% and the expected volatility. The expected 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 total share-based payment expenses incurred under this transaction for the year ended December 31, 2018 were USD5,360,000.

As at December 31, 2018, 17,000 of options and ordinary shares were exercised and issued.

On December 28, 2018, the Company granted certain eligible employees an aggregated 41,763,000 share options at an exercise price of HK$3.422 per share.

In the 41,763,000 share options granted, 10,000,000 options will be vested on December 31, 2019, 183,000 options will be vested from December 31, 2019 on every December 31 at 33.33% over the 3-year period and 31,580,000 options will be vested from December 31, 2019 on every December 31 at 25% over the 4-year period. The share options granted are subject to performance related adjustment.

The fair value of the options determined using the Black-Scholes model was USD6,139,000. The significant inputs into the model were dividend paid out ratio of 1.64% and the expected volatility. The expected 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 under this transaction for the year ended December 31, 2018 were USD42,000.

31 Share-based payments (continued)

(d) Share award scheme

On May 21, 2018, the Company adopted the restricted share award scheme to provide incentive to encourage the participants for their contribution to the Group. Subject to the terms of the share award scheme and the Listing Rules, the Company may, at its discretion, award eligible employees the Company's shares. Existing shares of the Company will be purchased by an independent trustee of the share award scheme from the market out of cash contributed by the Group and be held in trust until such shares are awarded and vested in accordance with the provisions of the share award scheme. The shares of the Company held by the trustee are referred to as treasury shares and each treasury share represents one ordinary share of the Company.

No shares shall be purchased pursuant to the share award scheme, nor any amounts paid to the trustee for the purpose of making such a purchase, if as a result of such purchase, the number of shares administered under the share award scheme shall exceed 10% of the issued capital of the Company. The maximum number of shares which may be granted to a Participant at any one time or in aggregate may not exceed 1% of the issued capital of the Company at the adoption date.

Subject to any early termination as may be determined by the board, the share award scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date.

During the year, 161,801,000 treasury shares were purchased on the market under the share award scheme at consideration of approximately USD73,501,000. The Group has awarded 2,874,000 treasury shares to eligible employees and a share-based payments expense of USD1,429,000 was recognized accordingly.

32 Cash generated from operations

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

	2018 USD'000	2017 USD'000
Profit before income tax	**311,362**	224,554
Adjustments for:		
— Depreciation of property, plant and equipment (Note 16)	**186,776**	181,519
— Amortization of intangible assets (Note 17)	**13,811**	1,572
— Amortization of land use rights (Note 15)	**588**	575
— Share based payment expenses (Note 31)	**17,207**	23,056
— Gains on disposal of property, plant and equipment (Note (b))	**(1,913)**	(1,244)
— Share of results of associates — net	**107**	285
— Interest income	**(16,242)**	(9,770)
— Interest expenses	**14,320**	4,757
— Provision for impairment of inventories	**276**	8,066
— Impairment of trade receivables	**1,697**	1,597
— Fair value gain from revaluation of interests in associates upon acquisition as a subsidiary	**133**	—
— Listing expenses	**—**	3,341
— Changes in fair value of derivatives financial instruments	**5,128**	(5,569)
— Release of fair value change upon the reclassification of available-for-sale financial assets as associates	**—**	(590)
— Shares vested under share award scheme	**1,429**	—
Changes in working capital:		
— Inventories	**35,980**	(139,021)
— Trade and other receivables	**110,995**	(46,756)
— Other non-current liabilities	**9,663**	—
— Trade and other payables, including contract liabilities	**91,644**	(37,286)
Cash generated from operations	**782,961**	209,086

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

	2018 USD'000	2017 USD'000
Net book amount	**6,476**	6,469
Gains on disposal of property, plant and equipment	**1,913**	1,244
Proceeds from disposal	**8,389**	7,713

32 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, 2018.

	2018 USD'000
Cash and cash equivalents	**1,064,824**
Borrowings — due within 1 year	**(989,401)**
Net cash resources	**75,423**
Cash and cash equivalents	**1,064,824**
Gross debts — variable interest rates	**(989,401)**
Net cash resources	**75,423**

	Borrowings due within 1 year USD'000
At 1 January 2018	**(296,127)**
Cash flows	**(693,962)**
Acquisition of subsidiaries	**—**
Effect on exchange difference arising on the translation of foreign operations	**688**
At December 31, 2018	**(989,401)**

33 Commitments

(a) Capital commitments

Capital commitments contracted for at consolidated balance sheet date but not yet incurred is as follows:

	2018 USD'000	2017 USD'000
— Investments	9,445	—
— Intangible assets	—	8,108
— Property, plant and equipment	2,026	868
	11,471	8,976

(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:

	2018 USD'000	2017 USD'000
No later than 1 year	42,196	8,541
Later than 1 year and no later than 2 years	22,373	7,037
Later than 2 years and no later than 5 years	10,011	12,911
Later than 5 years	515	7,860
	75,095	36,349

33 Commitments (continued)

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

At the consolidated balance sheet date, minimum lease payments receivable under non-cancellable operating lease of properties not recognized in the consolidated financial statements are as follows:

	2018 USD'000	2017 USD'000
No later than 1 year	**372**	333
Later than 1 year and no later than 2 years	**138**	145
Later than 2 years and no later than 5 years	**—**	30
	510	508

34 Business Combination

(a) In September 2018, the Company subscribed and acquired 150,000 shares of Belkin International Inc. ("Belkin"), a company incorporated in the United States of America, representing the entire issued share capital of Belkin.

Belkin and its subsidiaries are specialized in the consumer electronics products such as mobile phone accessories, desktop connectivity, home automation solution and related products. The provisional goodwill of USD441,509,000 (Note 17) arises from the acquisition is attributable to the synergies expected from leveraging the Group's manufacturing expertise to produce more competitive products, Belkin's established sales network and R&D capabilities to develop "smart home" business, and complementing the Group's existing interconnect solutions and other products offered to customers. None of the goodwill recognized was expected to be deductible for income tax purpose.

34 Business Combination (continued)

(a) (continued)

Provisional purchase price allocation exercise was performed by an independent professional valuer with reference to the business valuation using discounted cashflows forecast and market value approach. The provisionally determined fair value of identifiable assets acquired and liabilities assumed are summarized as follows:

	At September 20, 2018 USD'000
Total purchase consideration	879,944
Recognized amounts of identifiable assets acquired and liabilities assumed	
Intangible assets — Developed technology (Note 17)	120,100
Intangible assets — Customer relationships (Note 17)	52,500
Intangible assets — Trademarks and trade names (Note 17)	143,600
Intangible assets — Supplier relationships (Note 17)	5,700
Intangible assets — Computer software (Note 17)	2,296
Cash and cash equivalents	29,944
Property, plant and equipment (Note 16)	19,224
Inventories	173,584
Trade receivables	85,399
Other receivables, deposits and prepayments	38,469
Deferred tax assets	61,317
Deferred tax liabilities	(81,280)
Trade and other payables	(212,418)
Net assets acquired	438,435
Goodwill	441,509
	879,944
Outflow of cash to acquire business, net of cash acquired	
— Cash consideration paid	879,944
— Cash and cash equivalents acquired	(29,944)
Cash outflow on acquisition	850,000

The fair value of the trade receivables and other receivables as at the date acquisition amounted to USD85,399,000 and USD38,469,000 respectively. The gross contractual amount of trade receivables and other receivables were USD86,176,000 and USD38,469,000 respectively.

34 Business Combination (continued)

(a) (continued)

The following table summarise the key assumptions used in purchase price allocation exercise.

Customers' attrition rates	7.5%
Royalty rates	0.25%–2.0%
Annual sales growth rate	15.4%
Terminal growth rate	4.0%
Discount rates	10.1%

The acquired business contributed revenues of USD244,170,000 and net loss of USD5,896,000 to the Group for the period from September 21, 2018 to December 31, 2018. If the acquisition had occurred on January 1, 2018, the consolidated revenue and consolidated loss of the acquired business for the year ended December 31, 2018 would have been USD842,841,000 and USD2,828,000, respectively.

(b) On May 28, 2018, the Group entered into the Business and Property Transfer Agreement with Hon Hai Precision Industry Co., Ltd., the ultimate holding company, and fellow subsidiaries (collectively, the Vendors), pursuant to which the Company purchased the automotive electronics businesses of the Vendors for a total cash consideration of NTD500,000,000 (approximately USD16,752,000).

The following table summarizes the consideration paid for the automotive electronics businesses, and the amounts of the assets acquired recognized at the acquisition date:

	At June 1, 2018 USD'000
Total purchase consideration	
— Cash	16,752
Recognized amounts of identifiable assets acquired	
Property, plant and equipment (Note 16)	1,830
Inventories	5,175
Intangible assets (Note 17)	8,107
Net assets acquired	15,112
Goodwill	1,640
	16,752
Outflow of cash to acquire business, net of cash acquired	
— Cash consideration paid	16,752
Cash outflow on acquisition	16,752

34 Business Combination (Continued)

(c) On February 7, 2018, the Group entered into an agreement with Sharp under which the Group and Sharp agreed to make capital contributions in cash to a Singapore newly incorporated subsidiary of the Group ("SG subsidiary") for JPY1,541,000,000 (approximately USD14,368,000) and JPY1,481,000,000 (approximately USD13,805,000), respectively. Subsequent to the cash contributions by both parties, SG subsidiary entered into a Technology License Agreement with Sharp to grant the SG Subsidiary the right to develop, assemble and manufacture specific products using the know-how knowledge from Sharp until December 31, 2023.

On July 30, 2018, the Group entered into an agreement with Wuxi Sharp Electronic Component Co., Ltd. ("WSEC"), a subsidiary of Sharp, pursuant to which the Group purchased the plant and machineries and other vehicle camera and electronic mirror manufacturing equipment for a total cash consideration of JPY400,000,000 (approximately USD3,604,000). At the date of acquisition, WSEC simultaneously transferred the employments of factory workers to the Group and constituted a business combination. The following table summarizes the consideration paid for the acquisition and the amounts of the assets acquired recognized at the acquisition date:

	At July 30, 2018 USD'000
Total purchase consideration	
— Cash	3,604
Recognized amounts of identifiable assets acquired	
Property, plant and equipment (Note 16)	3,604
Net assets acquired	3,604
Outflow of cash to acquire business, net of cash acquired	
— Cash consideration paid	3,604

35 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, 2018 and 2017 and balances arising from related party transactions as at December 31, 2018 and 2017.

(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 Precisioin 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
Sharp Corporation	Associate of Hon Hai
Carston Limited	Subsidiary of Hon Hai
Success Rise Enterprises Limited	Subsidiary of Hon Hai

* for identification purpose only

35 Related-party transactions (continued)

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

	2018 USD'000	2017 USD'000
(i) Sales of goods		
— Subsidiaries of Hon Hai	**837,324**	658,064
— Hon Hai	**9,158**	52,475
— Associates of Hon Hai	**215,884**	78,413
	1,062,366	788,952
(ii) Sales of services		
— Subsidiaries of Hon Hai	**980**	1,716
— Hon Hai	**3**	850
— Associates of Hon Hai	**284**	5,458
	1,267	8,024
(iii) Purchase of goods		
— Subsidiaries of Hon Hai	**372,995**	396,908
— Associates of Hon Hai	**177,810**	153,183
— Hon Hai	**34,086**	32,045
	584,891	582,136
(iv) Purchase of property, plant and equipment		
— Subsidiaries of Hon Hai	**2,148**	3,522
— Associates of Hon Hai	**2,104**	1,461
— Hon Hai	**1,514**	—
	5,766	4,983
(v) Subcontracting expenses		
— Subsidiaries of Hon Hai	**105,539**	72,815
— Associates of Hon Hai	**413**	—
— Hon Hai	**6**	58
	105,958	72,873

35 Related-party transactions (continued)

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

	2018 USD'000	2017 USD'000
(vi) Shared services expenses		
— Subsidiaries of Hon Hai	**3,107**	354
— Associates of Hon Hai	**572**	2,726
— Hon Hai	**200**	159
	3,879	3,239
(vii) Molding costs		
— Subsidiaries of Hon Hai	**65,855**	59,171
— Associates of Hon Hai	**271**	—
— Hon Hai	**9**	—
	66,135	59,171
(viii) Rental income		
— Subsidiaries of Hon Hai	**1,085**	1,232
— Associates of Hon Hai	**1,115**	398
	2,200	1,630
(ix) Rental expenses		
— Subsidiaries of Hon Hai	**2,782**	1,990
— Hon Hai	**811**	747
— Associates of Hon Hai	**1,543**	34
	5,136	2,771
(x) Acquisition of licenses		
— Hon Hai	**—**	9,262
— Associates of Hon Hai	**14,403**	—
	14,403	9,262

35 Related-party transactions (continued)

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

	2018 USD'000	2017 USD'000
(xi) Disposal of Property, plant and equipment		
— Subsidiaries of Hon Hai	**597**	—
— Associates of Hon Hai	**2,377**	—
	2,974	—
(xii) Key management compensation		
— Salaries, wages and bonuses	**11,674**	12,815
— Pension, housing fund, medical insurance and other social insurances	**149**	306
— Share-based payment expenses	**9,749**	17,886
	21,572	31,007

The Group entered into the Business and Property Transfer Agreement with Hon Hai and its fellow subsidiaries on May 28, 2018, the Group has acquired the identifiable assets for a total of USD15,112,000 (Note 34(c)).

The Group entered into the Property Transfer Agreement with Wuxi Sharp Electronic Component Co., Ltd, an associate of Hon Hai, on July 30, 2018 for a total cash consideration of JYP400,000,000 (approximately USD3,604,000) (Note 34 (c)).

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.

35 Related-party transactions (continued)

(b) Balances with related parties:

Amounts due from related parties:

	2018 USD'000	2017 USD'000
(i) Trade receivables:		
— Subsidiaries of Hon Hai	**238,521**	278,952
— Associates of Hon Hai	**77,177**	48,961
— Hon Hai	**1,715**	3,007
	317,413	330,920
(ii) Other receivables:		
— Subsidiaries of Hon Hai	**3,346**	6,653
— Associates of Hon Hai	**1,240**	363
	4,586	7,016
(iii) Prepayments:		
— Subsidiaries of Hon Hai	**6,319**	2,520
— Associates of Hon Hai	**7,811**	—
	14,130	2,520

35 Related-party transactions (continued)

(b) Balances with related parties: (continued)

Amounts due to related parties:

	2018 USD'000	2017 USD'000
(i) Trade payables:		
— Subsidiaries of Hon Hai	**207,579**	134,491
— Associates of Hon Hai	**54,089**	40,353
— Hon Hai	**247**	1,284
	261,915	176,128
(ii) Other payables:		
— Subsidiaries of Hon Hai	**106,721**	44,738
— Associates of Hon Hai	**2,277**	1,092
— Hon Hai	**413**	411
	109,411	46,241
(iii) Payable for acquisition of license:		
— Hon Hai	**6,460**	8,108

36 Contingencies

The Group had no material contingent liabilities outstanding as at December 31, 2018.

37 Pledge of assets

As at December 31, 2018, bank deposits of USD5,387,000 were pledged as guarantee for customs duties.

38 Events after the balance sheet date

(a) On January 25, 2019, the Group entered into a share purchase agreement with Mizuho Growth Fund Limited Partnership ("Mizuho") to acquire the entire 4.6% equity interest of Kantatsu Co., Ltd., a related company to the Group, held by Mizuho for a total consideration of JPY300,000,000 (equivalent to approximately USD2,800,000).

(b) On January 25, 2019 and March 21, 2019, New Wing Interconnect Technology (Bac Giang) Co., Ltd, a limited liability company established in Vietnam and a wholly owned subsidiary of the Company, entered into the agreements with Fugiang Co., Ltd, a limited liability company established in Vietnam and a 95.05% owned subsidiary of Hon Hai, ("Fugiang") to acquire the land use right of a land of USD12,288,000 for expansion of the Group's production capacity.

39 Balance sheet and reserve movement of the Company

	Note	2018 USD'000	2017 USD'000
ASSETS			
Non-current assets			
Property, plant and equipment		**20,155**	31,893
Intangible assets		**15,476**	8,390
Interests in subsidiaries		**2,041,811**	1,161,447
Available-for-sale financial assets		**—**	13,357
Financial assets at fair value through other comprehensive income		**14,586**	—
Deferred income tax assets		**35,810**	11,411
Interests in associates		**6,199**	6,546
Deposits, prepayments and other receivables		**4,514**	7,424
		2,138,551	1,240,468
Current assets			
Inventories		**336,008**	352,542
Trade and other receivables		**814,695**	973,857
Financial assets at fair value through profit or loss		**1,147**	—
Derivative financial instrument		**—**	3,620
Cash and cash equivalents		**327,714**	301,711
		1,479,564	1,631,730
Total assets		**3,618,115**	2,872,198
EQUITY			
Equity attributable to owners of the Company			
Share capital		**131,708**	131,521
Treasury shares		**(72,072)**	—
Reserves	(a)	**1,474,131**	1,545,742
Total equity		**1,533,767**	1,677,263

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

	Note	2018 USD'000	2017 USD'000
LIABILITIES			
Non-current liability			
Deposits received and other payables		**5,830**	7,457
Current liabilities			
Trade and other payables		**1,209,304**	1,006,538
Borrowings		**827,839**	161,290
Current income tax liabilities		**41,375**	19,650
		2,078,518	1,187,478
Total liabilities		**2,084,348**	1,194,935
Total equity and liabilities		**3,618,115**	2,872,198

39 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, 2017	333,110	761,443	1,094,553
Comprehensive income			
— Profit for the year	83,263	—	83,263
Other comprehensive income			
— Exchange difference arising on the translation of foreign operation	—	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
Transaction with owners			
— issuance of ordinary shares upon initial public offerings	—	322,896	322,896
— issuance of ordinary shares upon over-allotment	—	48,398	48,398
— 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

39 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
Balance as at January 1, 2018	375,820	1,169,922	1,545,742
Comprehensive income			
— Profit for the year	34,847	—	34,847
Other comprehensive income			
— Exchange difference arising on the translation of foreign operation	—	(75,181)	(75,181)
— Fair value change in financial assets at fair value through other comprehensive income	—	(1,529)	(1,529)
Total comprehensive income/(loss) for the year	34,847	(76,710)	(41,863)
Transaction with owners			
— Exercise of share grant plan	—	(185)	(185)
— Exercise of share option	—	47	47
— Senior management and employees' share grant scheme and share award scheme	—	17,207	17,207
— Dividends paid	(46,817)	—	(46,817)
Total transactions with owners, recognized directly in equity	(46,817)	17,069	(29,748)
Balance at December 31, 2018	363,850	1,110,281	1,474,131

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;
"First Restricted Share Award Scheme"	the restricted share award scheme approved and adopted by the Company on January 31, 2018 and amended on May 15, 2018 (as restated, supplemented and amended from time to time);
"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;
"IFRSs"	International Financial Reporting Standards;
"IPO"	the initial public offering of Shares and listing of the Group on the Stock Exchange on July 13, 2017;

"Latest Practicable Date"	March 26, 2019, being the latest practicable date prior to the printing of this Annual Report 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;
"Remuneration Committee"	the remuneration committee of the Board;
"Restricted Share Award Schemes"	the First Restricted Share Award Scheme and the Second Restricted Share Award Scheme;
"RMB"	Renminbi, the lawful currency of the PRC;
"Second Restricted Share Award Scheme"	the restricted share award scheme approved and adopted by the Company on February 11, 2019 (as restated, supplemented and amended from time to time);
"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;
"Sharp"	Sharp Corporation (シャープ株式会社), a limited liability company registered in Japan, the shares of which are listed on the First Section of the Tokyo Stock Exchange, Inc. (Stock Code: 6753.T);

Definitions

"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"U.S." or "United States"	the United States of America;
"US$" or "U.S. dollar(s)"	United States dollars, the lawful currency of the United States;
"Vietnam"	the Socialist Republic of Vietnam; and
"%"	percent.