# 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**

# 2019

## Interim Report

# Contents



The English text of this interim report shall prevail over the Chinese text in case of any inconsistency.

# Corporate Information

## LEGAL NAME OF THE COMPANY

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

## PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited

Stock code: 6088

## DIRECTORS

### Executive Directors

LU Sung-Ching (盧松青)

LU Pochin Christopher (盧伯卿)

PIPKIN Chester John

### Non-executive Director

CHEN Ga-Lane (陳杰良)

*(resigned with effect from May 10, 2019)*

### Independent non-executive Directors

CURWEN Peter D

TANG Kwai Chang (鄧貴彰)

CHAN Wing Yuen Hubert (陳永源)

TRAINOR-DEGIROLAMO Sheldon

*(appointed with effect from May 10, 2019)*

## JOINT COMPANY SECRETARIES

YANG Tsung-Han (楊宗翰)

*(resigned with effect from August 12, 2019)*

WONG Kenneth Tak-kin (黃德堅)

*(appointed with effect from August 12, 2019)*

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

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

*(appointed with effect from May 10, 2019)*

TANG Kwai Chang (鄧貴彰)

TRAINOR-DEGIROLAMO Sheldon

*(appointed with effect from May 10, 2019)*

CURWEN Peter D

*(resigned with effect from May 10, 2019)*

CHEN Ga-Lane (陳杰良)

*(resigned with effect from May 10, 2019)*

## NOMINATION COMMITTEE

LU Sung-Ching (盧松青) *(Chairman)*

CHAN Wing Yuen Hubert (陳永源)

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

| | Six months ended June 30, 2019 USD'000 Unaudited | 2018 USD'000 Unaudited | Change % |
|---|---|---|---|
| **Key income statement items** | | | |
| Revenue | **1,918,306** | 1,719,352 | +11.6 |
| Gross profit | **376,360** | 294,654 | +27.7 |
| Operating profit | **121,836** | 139,820 | -12.9 |
| Profit attributable to owners of the Company | **101,834** | 107,621 | -5.6 |

| | Six months ended June 30, 2019 Unaudited | 2018 Unaudited | Change % point |
|---|---|---|---|
| **Key financial ratios** | | | |
| Gross profit margin | **19.6%** | 17.1% | +14.6 |
| Operating profit margin | **6.4%** | 8.1% | -21.0 |
| Margin of profit attributable to owners of the Company | **5.3%** | 6.2% | -15.9 |

| | Six months ended June 30, 2019 | Year ended December 31, 2018 | Six months ended June 30, 2018 |
|---|---|---|---|
| **Key operating ratios** | | | |
| Average inventory turnover days[1] | **80** | 65 | 68 |
| Average trade receivables turnover days[2] | **83** | 88 | 95 |
| Average trade payables turnover days[1] | **85** | 73 | 68 |

(1) Average inventory and trade payables turnover days are based on the average balance of such item divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the year ended December 31, 2018 is 365 days. The number of days for the six months ended June 30, 2019 is 183 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 receivable from related parties, divided by revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the year ended December 31, 2018 is 365 days. The number of days for the six months ended June 30, 2019 is 183 days.

# Management Discussion and Analysis

## BUSINESS OVERVIEW AND OUTLOOK

### Business Overview

For the six months ended June 30, 2019, 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, while successfully expanding to the businesses in the smart accessory and connected home market by keeping abreast of the technology trends. With these efforts, we experienced significant growth in our business. For the six months ended June 30, 2019, our revenue amounted to US$1,918 million, representing an increase of 11.6%, and our profit amounted to US$101 million, representing a decrease of 5.6%, each compared to the same period in 2018. As discussed in more details in the "Results of Operations" section below, our turnover recorded a sustained growth, thanks to our strategic focus based on correct anticipation of industry trends and the expansion of business. Although the increase in labor cost continued to grow in 2019, our gross profit margin increased as compared to that for the same period in 2018 due to the fact that our business layout in Vietnam helped relieve the pressure from rising labor cost. However, thanks to the acquisition of Belkin International, the talent retention plan and the expanded research and development activities, our operating expenses increased significantly as compared to that for the same period in 2018. As such, both of the operating profit and net profit decreased as compared to that for the same period in 2018.

The mobile devices continued to be our largest revenue contributor by end market. For the six months ended June 30, 2019, there was a decrease in sales mainly due to the cancellation of the standard configuration of earphone adapters by brand companies for their new smart phones, while the lightning plug and earphone business recorded a growth. As a result, our revenue from the mobile devices market decreased by 9.4% for the six months ended June 30, 2019 compared to the same period in 2018.

For the communications infrastructure end market, the customer demand decreased as a result of the destocking of equipment in the data center by end customers, resulting in the decrease in our CPU socket and memory card slot products business, while the demand for optical modules recorded a growth. As a result, our revenue from the communications infrastructure end market decreased by 3.0% for the six months ended June 30, 2019 compared to the same period in 2018.

For the computer and consumer electronic end market, this business decreased due to the cancellation of slides for new types of game machines. In addition, this business was also affected by the changes in the product design of brand companies. For the six months ended June 30, 2019, our revenue from the computer and consumer electronics end market decreased by 21.5% compared to the same period in 2018.

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, industry and medical end market increased by 100.5% for the six months ended June 30, 2019 compared to the same period in 2018.

Finally, as we successfully acquired Belkin International, a world-recognized consumer electronics product brand, by way of merger in September 2018, our business in connected home market grew rapidly. In the six months ended June 30, 2019, our revenue from the connected home market increased by 3,235.9% compared to the same period in 2018.

Similarly as we successfully acquired Belkin International in September 2018, which significantly increased our business in the smart accessories market, in the six months ended June 30, 2019, our revenue from the smart accessories market increased by 662.9% compared to the same period in 2018.

## Industry Outlook and Business Prospects

### Industry Outlook

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

*Mobile 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 accessory products such as chargers 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 increasing 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*. Current and future experiences that consumers want to have are increasingly software driven. These experiences must be lit up on hardware devices (e.g., smartphones, tablets, voice assistants, smart TVs, doorbell cameras) that will need connectivity and to become smart. As a result, every smart home has a critical primary foundational requirement — outstanding wired and wireless connectivity throughout the home. The companies who architect and future-proof their products through an extensive understanding of consumers and the experiences they want to have will be the winners.

*Smart accessories.* As the world continues to transition from wired to wireless, smartphones, tablets, smartwatches and other smart mobile devices are an increasingly indispensable part of people's lives. These devices will get smarter over time and people will increasingly want peripherals and accessories that fill in the gaps to make them work better together, such as mobile power, screen protection, connectivity, audio and wearables. People want product offerings that are designed to create a personal, trusted and quality way to use technology, whether they are at home, at school, at work or on the go.

**Business Prospects**

We anticipate the overall connector industry, particularly the end markets we strategically focus on, will continue to grow in the second half of 2019. We plan to continue our strategic focus on the mobile devices, automotive, industry and medical end markets, and expect that our development in these end markets will be the main driver of our growth in the second half of 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.* 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 both our revenue and overall margin.

- *Computer and consumer electronics.* The industry growth is expected to continue to be slow. Therefore, we will focus on profitability 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 smart home industry and automotive industry. We believe with our leading position in the development and production of interconnect solutions, we would be able to tap on the burgeoning demand for electronic vehicles. We also plan to increase our investments in developing in-car electronic systems and key autonomous driving components. 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.* Linksys is one of the world's most premium and recognized smart home brands. We have achieved this through decades of investing in the technical platform and delivering great end user experiences through our products, which is not easily replicated by new or existing competitors. Growth prospects for the Connected Home business are strong, as we have launched and will continue to launch new software features, partnerships and hardware products for the Linksys Velop, Wemo and Phyn platforms. The software platform roadmap includes ongoing development and execution of new capabilities and recurring revenue subscriptions, including security, motion sensing and health & wellness. We have leading relationships and partnerships with the world's pre-eminent retailers, ISP/telcos, ecosystem partners, and other leading technology businesses. We focus on online channels as well, which continue to grow in prominence globally.

- *Smart accessories.* The Belkin brand plays in the premium segment of the mobile device accessories space. We are able to do so because of the investments we make in creating innovative, high quality products that represent good value for the price. This segment generates strong revenue streams with enhanced profit margins, which makes for a stronger, more sustainable long-term business. Development areas exist in multiple channels, including private label, strategic partnerships, geographic expansion particularly in Asia and category expansion. We will drive growth in multiple areas, including product market share growth, new product introductions, geographic expansion and further development of the e-commerce space. Key product areas of growth include mobile power, screen protection, connectivity and audio.

## RESULTS OF OPERATIONS

### Revenue

We derive our revenue mainly from the sale of our interconnect solutions and other products and, to a lesser extent, from the sale of mold parts and sample products and others. For the six months ended June 30, 2019, our revenue amounted to US$1,918 million, representing an 11.6% increase from US$1,719 million in the same period in 2018. Among the six main end markets, our revenue from (1) the mobile devices end market decreased by 9.4%, (2) the communications infrastructure end market decreased by 3.0%, (3) the computer and consumer electronics end market decreased by 21.5%, (4) the automotive, industry and medical end market increased by 100.5%, (5) the connected home end market increased by 3,235.9%, and (6) the smart accessories end market increased by 662.9%. The following table sets forth our revenue by end markets in absolute amounts and as percentages of revenue for the periods indicated:

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **US$** | **%** | US$ | % |
| | (in thousands, except for percentages) | | | |
| Mobile devices | **670,897** | **35.0** | 740,193 | 43.1 |
| Communications infrastructure | **440,510** | **23.0** | 454,125 | 26.4 |
| Computer and consumer electronics | **357,895** | **18.7** | 455,946 | 26.5 |
| Automotive, industry and medical | **61,995** | **3.2** | 30,914 | 1.8 |
| Connected home | **124,195** | **6.5** | 3,723 | 0.2 |
| Smart accessories | **262,814** | **13.6** | 34,451 | 2.0 |
| Total | **1,918,306** | **100.0** | 1,719,352 | 100.0 |

***Mobile devices.*** The revenue from the mobile devices end market decreased by 9.4%, which was mainly due to that the cancellation of the standard configuration of earphone adapters by brand companies for their new smart phones while the lightning plug and earphone business recorded a growth.

***Communications infrastructure.*** The revenue from the communications infrastructure end market decreased by 3.0%, which was mainly due to the decreased customer demand as a result of the destocking of equipment in the data center by end customers, resulting in the decrease in our CPU socket and memory card slot products business, while the demand for optical modules recorded a growth.

***Computer and consumer electronics.*** The revenue from the computer and consumer electronics end market decreased by 21.5%, which was mainly due to the cancellation of slides for new types of game machines and the changes in the product design of brand companies, resulting in a drop in this business.

***Automotive, industry and medical.*** The revenue from the automotive, industry and medical end market increased by 100.5%, which was primarily due to our efforts in the research and development in the automotive application area, the completion of the integration of Sharp's businesses including the vehicle camera business in the second half of 2018 and the continuous development of potential customers.

***Connected home.*** The revenue from the connected home end market increased by 3,235.9%, which was mainly due to the fact that we completed the acquisition of Belkin International by way of merger in September 2018.

***Smart accessories.*** The revenue from the smart accessories end market increased by 662.9%, which was mainly due to the fact that we completed the acquisition of Belkin International by way of merger in September 2018.

### Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by 8.2% from US$1,425 million in the six months ended June 30, 2018 to US$1,542 million in the same period in 2019. 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. For the six months ended June 30, 2019, the increase was primarily driven by the expansion of our overall business scale.

As a result of the foregoing, our gross profit increased by 27.7% from US$295 million for the six months ended June 30, 2018 to US$376 million in the same period in 2019, primarily due to the revenue increase. Our gross profit margin increased from 17.1% for the six months ended June 30, 2018 to 19.6% in the same period in 2019, 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 90.0% from US$30 million for the six months ended June 30, 2018 to US$57 million in the same period in 2019, primarily due to the acquisition of Belkin International.

### Administrative Expenses

Our administrative expenses increased by 68.6% from US$51 million for the six months ended June 30, 2018 to US$86 million in the same period in 2019, which was mainly due to the acquisition of Belkin International and the increased employees' compensations for retention of 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 consumable 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 34.4% from US$90 million for the six months ended June 30, 2018 to US$121 million in the same period in 2019, mainly due to the continuous 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, although our expanded scale of business and prudent cost control helped increase our gross profit, our operating expenses increased due to the acquisition of Belkin International, the talent retention plan and the increased research and development activities. Therefore our operating profit decreased by 12.9% from US$140 million for the six months ended June 30, 2018 to US$122 million in the same period in 2019. Our operating profit margin decreased from 8.1% for the six months ended June 30, 2018 to 6.4% in the same period in 2019.

### 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 decreased by 54.1% from US$37 million in the six months ended June 30, 2018 to US$17 million in the same period in 2019. Effective income tax rate for the taxes on profit for the period decreased from 18.5% to 14.4%, which was mainly due to different contributions of taxable profits from our subsidiaries in jurisdictions that have different tax rates.

### Profit for the Period

As a result of the decrease in operating profit, profit for the period decreased by 5.6% from US$107 million for the six months ended June 30, 2018 to US$101 million in the same period in 2019. Our profit margin decreased from 6.2% in the six months ended June 30, 2018 to 5.3% in the same period in 2019.

## 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 June 30, 2019, we had cash and cash equivalents of US$1,044 million, compared to US$1,065 million as of December 31, 2018. In addition, as of June 30, 2019, we had short-term bank deposits of US$2 million, compared to US$6 million as of December 31, 2018.

As of June 30, 2019, we had total bank borrowings of US$888 million, including short-term borrowings of US$314 million and long-term borrowings of US$574 million, as compared to the total bank borrowings of US$989 million, all of which were short-term borrowings, as of December 31, 2018. We incur short-term bank borrowings mainly for our working capital purpose and to supplement our capital needs for investment and acquisition activities. For long-term borrowings, in February 2019, the Company entered into a Syndicated Loan Facility Agreement of US$575 million for a term of three years with a syndicate group comprising other eighteen banks including Mizuho Corporate Bank, a Japanese company. This loan was mainly used for repayment of the short-term bank borrowings incurred for the acquisition of Belkin International in 2018. As of June 30, 2019, we had fully utilized the new facility.

Our current ratio, calculated using current assets divided by current liabilities, was 1.64 times as of June 30, 2019, compared to 1.21 times as of December 31, 2018. Our quick ratio, calculated using current assets less inventories divided by current liabilities, was 1.20 times as of June 30, 2019, compared to 0.93 times as of December 31, 2018. The increase in our current ratio and quick ratio was primarily due to the repayment of the short-term borrowings borrowed for the acquisition of Belkin International in 2018 during the current period and the decrease in the current liabilities as at June 30, 2019 compared to that for the same period in 2018.

## Cash Flow

For the six months ended June 30, 2019, our net cash generated from operating activities was US$200 million, net cash used in investing activities was US$97 million, and net cash used in financing activities was US$123 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 expect to fund part of our capital expenditures using our IPO proceeds. See "Use of IPO Proceeds" below for details.

For the six months ended June 30, 2019, our capital expenditures amounted to US$120 million, as compared to US$74 million for the same period in 2018. The capital expenditures for the six months ended June 30, 2019 were primarily used for the expansion of the production lines in Vietnam, including the acquisition of land for industrial purpose, the construction of plants and building structures and the addition of production facilities.

## Significant Investments, Acquisitions and Disposals

On January 25, 2019, the Company entered into a share purchase agreement with Mizuho Growth Fund Limited Partnership, pursuant to which the former agreed to acquire and the latter agreed to sell certain shares representing 4.6% of the entire equity interest in Kantatsu Co., Ltd (of which Sharp is a substantial shareholder) at a consideration of JPY300 million (approximately US$2.7 million). For further details, please refer to the Company's announcement dated January 25, 2019.

On January 25, 2019, New Wing Interconnect Technology (Bac Giang) Co., Ltd (a wholly-owned subsidiary of the Company) ("New Wing (Bac Giang)") entered into a zone A land lease agreement with Fugiang Co., Ltd (a non-wholly owned subsidiary of Hon Hai, the controlling Shareholder) ("Fugiang"), in relation to the acquisition of land use rights of a parcel of industrial land located at Van Trung Industrial Park, Viet Yen District, Bac Giang Province, Vietnam with a site area of approximately 73,682.3 square meters ("Zone A") at a consideration of approximately US$4,973,555.25 (excluding value-added tax). In addition, Fugiang will provide property management services to New Wing (Bac Giang) regarding Zone A and accordingly New Wing (Bac Giang) will pay to Fugiang an annual management fee of approximately US$36,841.15 (excluding value-added tax). For further details, please refer to the Company's announcement dated January 25, 2019.

On March 21, 2019, New Wing (Bac Giang) entered into zones B to E land lease agreements with Fugiang, in relation to the acquisition of land use rights of a parcel of industrial land located at Van Trung Industrial Park, Viet Yen District, Bac Giang Province, Vietnam with a site area of approximately 181,028 square meters (the "Zones B to E") at a consideration of approximately US$11,674,373 (excluding value-added tax). In addition, Fugiang will provide property management services to New Wing (Bac Giang) regarding Zones B to E and accordingly New Wing (Bac Giang) will pay to Fugiang an annual management fee of approximately US$90,515 (excluding value-added tax). For further details, please refer to the Company's announcement dated March 21, 2019.

Save as disclosed above, we did not have any significant investments, material acquisitions or material disposals during the six months ended June 30, 2019.

### 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 six months ended June 30, 2019 was 80 days as compared to 65 days for 2018. The higher inventory turnover days for the six months ended June 30, 2019 was primarily due to increased leveling production activities in anticipation of a greater product demand in the second half of 2019 and the longer inventory turnover days as a result of Belkin International's products being consumer products in the end market after the merger of Belkin International.

Our inventories increased from US$650 million as of December 31, 2018 to US$706 million as of June 30, 2019, primarily due to the expansion of our business scale in general, as well as increased leveling production activities in anticipation of a greater product demand in the second half of 2019.

Provision for inventory impairment as of December 31, 2018 and as of June 30, 2019 were both US$29 million. Provision for inventory impairment did not follow the increase in the inventory balance during the period, mainly because we proactively managed our obsolete inventories.

### 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 88 days in 2018 to 83 days for the six months ended June 30, 2019, mainly due to the structure of customers. Our average trade receivables turnover days for related parties for the six months ended June 30, 2019 was 125 days as compared to 111 days in 2018.

Our trade receivables decreased from US$935 million as of December 31, 2018 to US$805 million as of June 30, 2019, 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 increased to 85 days for the six months ended June 30, 2019 as compared to 73 days for 2018, which was mainly due to the longer payment period of certain suppliers.

Our trade payables decreased from US$722 million as of December 31, 2018 to US$708 million as of June 30, 2019, primarily due to the decreased procurement as a result of the intrinsic seasonality of our businesses.

### Major Capital Commitments

As of June 30, 2019, we had capital commitments of US$20 million, which primarily connected with the purchase of land use rights and property, plant, equipment related to our production facilities and investments.

### Contingent Liabilities

As of June 30, 2019, 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 June 30, 2019, 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 June 30, 2018: 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.

| Item | Available on December 31, 2018 (US$'000) | Utilized between December 31, 2018 and June 30, 2019 (US$'000) | Unutilized as at June 30, 2019 (US$'000) |
|---|---|---|---|
| Investment in new interconnect technologies and solutions for batteries for electric vehicles and for electronic vehicle connectivity solutions | 29,550 | – | 29,550 |
| Establish an enhanced management information technology platform including purchase of enterprise resource planning systems and modules, as well as implementation | 15,683 | 1,176 | 14,507 |
| Working capital and other general corporate purposes | 34,499 | – | 34,499 |

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

| Item | Unutilized as at June 30, 2019 (US$'000) | Expected timeline |
|---|---|---|
| Investment in new interconnect technologies and solutions for batteries for electric vehicles and for electronic vehicle connectivity solutions | **29,500** | 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 | **14,507** | 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 June 30, 2019, certain bank deposits totaling RMB13.8 million of 重慶市鴻騰科技有限公司, 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 June 30, 2019, we had approximately 39,000 employees, as compared to 40,500 employees as of December 31, 2018. Total employee benefit expenses including Directors' remuneration for the six months ended June 30, 2019 were US$281 million, as compared to US$280 million for the same period in 2018. 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 Award Schemes 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 June 30, 2019, the nominal principal amount of our forward foreign exchange contracts was US$560 million.

## INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended June 30, 2019.

# Report on Review of Interim Financial Information

羅兵咸永道

**TO THE BOARD OF DIRECTORS 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)*

## Introduction

We have reviewed the interim financial information set out on pages 20 to 58, which comprises the condensed consolidated interim balance sheet of FIT Hon Teng Limited (the "Company") and its subsidiaries (together, the "Group") as at June 30, 2019 and the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, August 12, 2019

# Condensed Consolidated Interim Income Statement

For the six months ended June 30, 2019

| | Note | For the six months ended June 30, 2019 US$'000 (unaudited) | 2018 US$'000 (unaudited) |
|---|---|---|---|
| **Revenue** | 7 | **1,918,306** | 1,719,352 |
| Cost of sales | 8 | **(1,541,946)** | (1,424,698) |
| **Gross profit** | | **376,360** | 294,654 |
| Distribution costs and selling expenses | 8 | **(57,205)** | (30,456) |
| Administrative expenses | 8 | **(85,597)** | (51,245) |
| Research and development expenses | 8 | **(121,325)** | (90,276) |
| Reversal/(provision) for impairment loss on financial assets | 8 | **117** | (703) |
| Other income | | **10,164** | 7,580 |
| Other (losses)/gains — net | | **(678)** | 10,266 |
| **Operating profit** | | **121,836** | 139,820 |
| Finance income | | **11,526** | 7,948 |
| Finance costs | | **(15,298)** | (3,422) |
| **Finance (costs)/income — net** | | **(3,772)** | 4,526 |
| Share of results of associates — net | | **—** | (192) |
| **Profit before income tax** | | **118,064** | 144,154 |
| Income tax expense | 9 | **(17,321)** | (37,309) |
| **Profit for the period** | | **100,743** | 106,845 |
| **Profit/(loss) attributable to:** | | | |
| Owners of the Company | | **101,834** | 107,621 |
| Non-controlling interests | | **(1,091)** | (776) |
| | | **100,743** | 106,845 |
| **Earnings per share for profit attributable to owners of the Company (expressed in US cents per share)** | | | |
| Basic earnings per share | 10 | **1.55** | 1.60 |
| Diluted earnings per share | 10 | **1.48** | 1.52 |

The notes on pages 27 to 58 form an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended June 30, 2019

| | Note | For the six months ended June 30, 2019 US$'000 (unaudited) | 2018 US$'000 (unaudited) |
|---|---|---|---|
| **Profit for the period** | | **100,743** | 106,845 |
| **Other comprehensive loss:** | | | |
| *Item that may be reclassified subsequently to profit or loss* | | | |
| Currency translation differences | | **(16,996)** | (40,097) |
| *Item that will not be reclassified subsequently to profit or Loss* | | | |
| Fair value change in financial assets at fair value through other comprehensive income | | **(43)** | – |
| **Total other comprehensive loss for the period, net of tax** | | **(17,039)** | (40,097) |
| **Total comprehensive income for the period** | | **83,704** | 66,748 |
| **Total comprehensive income/(loss) for the period attributable to:** | | | |
| Owners of the Company | | **84,743** | 67,524 |
| Non-controlling interests | | **(1,039)** | (776) |
| | | **83,704** | 66,748 |

The notes on pages 27 to 58 form an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Interim Balance Sheet

As at June 30, 2019

| | Note | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | 12 | **—** | 20,144 |
| Property, plant and equipment | 12 | **629,150** | 599,336 |
| Right-of-use assets | 3.1(a), 12 | **66,312** | — |
| Intangible assets | 12 | **770,362** | 790,958 |
| Financial assets at fair value through other comprehensive income | 13 | **21,211** | 17,102 |
| Interests in associates | | **6,199** | 6,199 |
| Deferred income tax assets | | **107,889** | 108,786 |
| Deposits and prepayments | 14 | **19,457** | 14,409 |
| | | **1,620,580** | 1,556,934 |
| **Current assets** | | | |
| Inventories | | **706,087** | 649,708 |
| Trade and other receivables | 14 | **890,662** | 1,030,707 |
| Financial assets at fair value through profit or loss | | **—** | 1,147 |
| Current income tax assets | | **75** | — |
| Short-term bank deposits | | **2,066** | 6,424 |
| Cash and cash equivalents | | **1,044,349** | 1,064,824 |
| | | **2,643,239** | 2,752,810 |
| **Total assets** | | **4,263,819** | 4,309,744 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 15 | **132,267** | 131,708 |
| Treasury shares | | **(82,832)** | (72,072) |
| Reserves | | **1,903,550** | 1,874,942 |
| | | **1,952,985** | 1,934,578 |
| **Non-controlling interests** | | **11,711** | 12,750 |
| **Total equity** | | **1,964,696** | 1,947,328 |

The notes on pages 27 to 58 form an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Interim Balance Sheet

As at June 30, 2019

| | Note | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | 16 | **573,984** | — |
| Lease liabilities | 3.1(a) | **28,854** | — |
| Deferred income tax liabilities | | **68,062** | 75,023 |
| Deposits received and other payables | 17 | **15,465** | 18,307 |
| | | **686,365** | 93,330 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **1,220,143** | 1,190,699 |
| Lease liabilities | 3.1(a) | **18,098** | — |
| Contract liabilities | | **1,754** | 6,025 |
| Financial liabilities at fair value through profit or loss | | **8,720** | — |
| Bank borrowings | 16 | **313,763** | 989,401 |
| Current income tax liabilities | | **50,280** | 82,961 |
| | | **1,612,758** | 2,269,086 |
| **Total liabilities** | | **2,299,123** | 2,362,416 |
| **Total equity and liabilities** | | **4,263,819** | 4,309,744 |

The notes on pages 27 to 58 form an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended June 30, 2019

| (Unaudited) | Attributable to owners of the Company<br>Share capital<br>US$'000 | Treasury shares<br>US$'000 | Share premium and capital reserve<br>US$'000 | Other reserves<br>US$'000 | Retained earnings<br>US$'000 | Sub-total<br>US$'000 | Non-controlling interests<br>US$'000 | Total equity<br>US$'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance as at January 1, 2019** | 131,708 | (72,072) | 518,946 | 128,903 | 1,227,093 | 1,934,578 | 12,750 | 1,947,328 |
| **Comprehensive income** | | | | | | | | |
| — Profit/(loss) for the period | — | — | — | — | 101,834 | 101,834 | (1,091) | 100,743 |
| **Other comprehensive loss** | | | | | | | | |
| — Currency translation differences | — | — | — | (17,048) | — | (17,048) | 52 | (16,996) |
| — Fair value changes in financial assets at fair value through other comprehensive income | — | — | — | (43) | — | (43) | — | (43) |
| **Total comprehensive income/(loss)** | — | — | — | (17,091) | 101,834 | 84,743 | (1,039) | 83,704 |
| **Transactions with owners** | | | | | | | | |
| — Exercise of share grant plan | 547 | — | (547) | — | — | — | — | — |
| — Exercise of share option | 12 | — | 420 | (136) | — | 296 | — | 296 |
| — Senior management and employees' share grant schemes (Note 18(a) & (b)) | — | — | — | 2,654 | — | 2,654 | — | 2,654 |
| — Share option scheme (Note 18(c)) | — | — | — | 1,868 | — | 1,868 | — | 1,868 |
| — Shares purchases for share award scheme (Note 18(d)) | — | (10,760) | — | — | — | (10,760) | — | (10,760) |
| — Dividend | — | — | — | — | (60,394) | (60,394) | — | (60,394) |
| **Total transactions with owners, recognized directly in equity** | 559 | (10,760) | (127) | 4,386 | (60,394) | (66,336) | — | (66,336) |
| **Balance at June 30, 2019** | 132,267 | (82,832) | 518,819 | 116,198 | 1,268,533 | 1,952,985 | 11,711 | 1,964,696 |

The notes on pages 27 to 58 form an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended June 30, 2019

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Unaudited) | Share capital US$'000 | Treasury shares held under shares award scheme US$'000 | Share premium and capital reserve US$'000 | Other reserves US$'000 | Retained earnings US$'000 | Sub-total US$'000 | Non-controlling interests US$'000 | Total equity US$'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 period | — | — | — | — | 107,621 | 107,621 | (776) | 106,845 |
| **Other comprehensive loss** | | | | | | | | |
| — Currency translation differences | — | — | — | (40,097) | — | (40,097) | — | (40,097) |
| **Total comprehensive income/(loss)** | — | — | — | (40,097) | 107,621 | 67,524 | (776) | 66,748 |
| **Transactions with owners** | | | | | | | | |
| — Senior management and employees' share grant schemes (Note 18(a) & (b)) | — | — | — | 5,887 | — | 5,887 | — | 5,887 |
| — Share option scheme (Note 18(c)) | — | — | — | 5,360 | — | 5,360 | — | 5,360 |
| — Shares purchases for share award scheme (Note 18(d)) | — | (24,967) | — | — | — | (24,967) | — | (24,967) |
| — Shares vested under share award scheme (Note 18(d)) | — | 1,400 | — | — | — | 1,400 | — | 1,400 |
| — Contribution from non-controlling interests | — | — | — | — | — | — | 13,805 | 13,805 |
| **Total transactions with owners, recognized directly in equity** | — | (23,567) | — | 11,247 | — | (12,320) | 13,805 | 1,485 |
| **Balance at June 30, 2018** | 131,521 | (23,567) | 515,508 | 173,808 | 1,151,808 | 1,949,078 | 13,058 | 1,962,136 |

The notes on pages 27 to 58 form an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Cash Flows

For the six months ended June 30, 2019

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| **Cash flow from operating activities** | | |
| Cash generated from operations | **256,464** | 374,996 |
| Income tax paid | **(56,141)** | (37,170) |
| **Net cash generated from operating activities** | **200,323** | 337,826 |
| **Cash flow from investing activities** | | |
| Purchase of property, plant and equipment | **(111,712)** | (57,666) |
| Purchase of intangible assets | **(134)** | (1,437) |
| Proceeds from disposal of property, plant and equipment | **3,569** | 4,337 |
| Payment for acquisition of businesses | **—** | (4,602) |
| Investments in financial assets at fair value through other comprehensive income | **(4,155)** | (1,555) |
| Proceeds from disposal of intangible assets | **3** | — |
| Decrease in short-term bank deposits | **4,358** | 7,625 |
| Interest received | **11,525** | 7,948 |
| **Net cash used in investing activities** | **(96,546)** | (45,350) |
| **Cash flow from financing activities** | | |
| Proceeds from bank borrowings | **762,008** | 83,001 |
| Repayment of bank borrowings | **(862,655)** | — |
| Interest paid | **(12,253)** | (3,422) |
| Shares purchases for share award scheme | **(10,760)** | (24,967) |
| Proceeds from issuance of ordinary shares | **296** | — |
| **Net cash (used in)/generated from financing activities** | **(123,364)** | 54,612 |
| **Net (decrease)/increase in cash and cash equivalents** | **(19,587)** | 347,088 |
| Cash and cash equivalents at beginning of the period | **1,064,824** | 767,554 |
| Exchange difference on cash and cash equivalents | **(888)** | (21,248) |
| **Cash and cash equivalents at end of the period** | **1,044,349** | 1,093,394 |

The notes on pages 27 to 58 form an integral part of this condensed consolidated interim financial information.

# Notes to the Condensed Consolidated Interim Financial Information

## 1 General information of the Group

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 manufacture, sales and service of connectors, case, thermal module, wired/wireless communication products, optical products, power supply modules, and assemblies for use in the Information Technology ("IT"), communications, automotive equipment, precision molding, automobile, and consumer electronics industries.

The 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 condensed consolidated interim financial information is presented in United States Dollar ("US$") unless otherwise stated.

## 2 Basis of preparation

The unaudited condensed consolidated interim financial information for the six months ended June 30, 2019 is prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting".

The interim report does not include all the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended December 31, 2018 ("Annual Report") and any public announcements made by FIT Hon Teng Limited during the interim reporting period.

# 3 Summary of significant accounting policies

The accounting policies applied are consistent with those as described in the Annual Report, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The Group has adopted the following new standards and amendments to standards which are mandatory for the financial year beginning January 1, 2019 and are relevant to its operation.

| | |
|---|---|
| Annual Improvements to IFRSs (Amendments) | Annual Improvements to IFRSs 2015–2017 Cycle |
| IFRS 16 | Leases |
| IFRIC 23 | Uncertainty over Income Tax Treatments |

The Group has assessed the impact of the adoption of these new standards and amendments to standards. The impact of the adoption of IFRS 16 "Leases" is disclosed in note 3.1. The other new standards or amendments to standards did not have any impact on the Group's results.

(b) New standards and amendments to standards which are not yet effective for this financial period and have not been early adopted by the Group

The Group has not early adopted the following new standards and amendments that have been issued but are not yet effective for the period:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| IFRS 3 (Amendment) | Definition of a Business | January 1, 2020 |
| IFRS 17 | Insurance Contracts | January 1, 2021 |
| IFRS 10 and IAS 28 (Amendment) | Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture | To be determined |
| IAS 1 and IAS 8 (Amendments) | Definition of Material | January 1, 2020 |

## 3.1 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 "Leases" on the Group's financial statements and discloses the new accounting policies that have been applied from January 1, 2019 in below.

The Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening condensed consolidated interim balance sheet on January 1, 2019.

# 3 Summary of significant accounting policies (continued)

## 3.1 Changes in accounting policies (continued)

### (a) IFRS 16 "Leases" — Adjustment recognized on adoption

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.04%.

For leases previously classified as finance leases, the entity recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

| | US$'000 (Unaudited) |
|---|---|
| Operating lease commitments disclosed as at December 31, 2018 | 75,095 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 72,921 |
| Less: short-term leases recognized on a straight-line basis as expense | (18,299) |
| Less: low-value leases recognized on a straight-line basis as expense | (14) |
| Less: prepaid lease payments | (708) |
| Add: accrued lease payments | 142 |
| Lease liabilities recognized as at January 1, 2019 | 54,042 |
| Of which are: | |
| Current lease liabilities | 17,723 |
| Non-current lease liabilities | 36,319 |
| | 54,042 |

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

# 3 Summary of significant accounting policies (continued)

## 3.1 Changes in accounting policies (continued)

### (a) IFRS 16 "Leases" — Adjustment recognized on adoption (continued)

The recognized right-of-use assets relate to the following types of assets:

| | June 30, 2019<br>US$'000 | January 1, 2019<br>US$'000 |
|---|---|---|
| Land use rights | **19,861** | 20,144 |
| Office premises, warehouses and staff quarters | **45,595** | 53,565 |
| Machinery and equipment | **34** | 54 |
| Motor vehicles | **822** | 989 |
| Total right-of-use assets | **66,312** | 74,752 |

The change in accounting policy affected the following items in the condensed consolidated interim balance sheet as at January 1, 2019:

- land use rights — decrease by US$20,144,000
- right-of-use assets — increase by US$74,752,000
- prepaid lease payments — decrease by US$708,000
- accrued lease payments — decrease by US$142,000
- lease liabilities — increase by US$54,042,000

# 3 Summary of significant accounting policies (continued)

## 3.1 Changes in accounting policies (continued)

### (b) Impact on segment disclosures

Segment assets as at June 30, 2019 all increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

| | Segment assets US$'000 (unaudited) |
|---|---|
| The People's Republic of China ("The PRC") | 23,354 |
| Singapore | 901 |
| Vietnam | 2,190 |
| Taiwan | 100 |
| United States of America | 15,556 |
| Others | 24,211 |

### (c) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases, and
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4 "Determining whether an arrangement contains a Lease".

# 3 Summary of significant accounting policies (continued)

## 3.1 Changes in accounting policies (continued)

### (d) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods of 2 to 11 years but may have extension options as described in (i) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the end of 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, lease is recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

# 3 Summary of significant accounting policies (continued)

## 3.1 Changes in accounting policies (continued)

**(d) The Group's leasing activities and how these are accounted for (continued)**

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities
- any lease payments made at or before the commencement date less any lease incentives received

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(i) Extension options

Extension are included in a number of property and equipment leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

# 4 Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Report except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16 as described in the following:

## 4.1 Estimated discount rate in calculating the present value of lease liabilities

The Group recognizes lease liabilities at fair value at initial recognition. The lease liabilities are computed at the present value of the lease payments that are not paid at that date of initial recognition. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. The selection of incremental borrowing rates determined for the lease contracts in different countries involved the management judgment and estimates. Any changes to the incremental borrowing rate might have financial impact to the Group's financial performance and financial position.

# 5 Financial risk management and financial instruments

## (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Report.

There have been no changes in the risk management policies since the year ended December 31, 2018.

## (b) Liquidity risk

Compared to the year ended December 31, 2018, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

## (c) Fair value estimation

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

The table below analyses the Group's financial instruments carried at fair values as at June 30, 2019 and December 31, 2018 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).

# 5 Financial risk management and financial instruments (continued)

## (c) Fair value estimation (continued)

| (Unaudited) | Level 1<br>US$'000 | Level 2<br>US$'000 | Level 3<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|---|
| **As at June 30, 2019** | | | | |
| **Financial assets** | | | | |
| Financial assets at fair value through other comprehensive income | **—** | **—** | **21,211** | **21,211** |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | **—** | **(8,720)** | **—** | **(8,720)** |

| (Audited) | Level 1<br>US$'000 | Level 2<br>US$'000 | Level 3<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|---|
| **As at December 31, 2018** | | | | |
| **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 |

## 6 Segment information

The Group operates as a single operating segment. The single operating segment is reported in a manner consistent with the internal reporting provided to the 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 make strategic decisions. CODM assesses the performance of the operating segment based on a measure of operating profit.

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

For the six months ended June 30, 2019, revenue by geographical areas is as follows:

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| The PRC | **518,174** | 640,836 |
| United States of America | **732,352** | 573,223 |
| Taiwan | **171,167** | 151,361 |
| Singapore | **84,186** | 67,007 |
| Hong Kong | **112,272** | 121,867 |
| Malaysia | **49,684** | 60,330 |
| United Kingdom | **79,895** | — |
| Others | **170,576** | 104,728 |
| | **1,918,306** | 1,719,352 |

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

# 6 Segment information (continued)

The geographical analysis of the Group's non-current assets (other than intangible assets, financial assets at fair value through other comprehensive income, and deferred income tax assets) is as follows:

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| The PRC | **471,700** | 475,545 |
| Singapore | **66,444** | 65,958 |
| Vietnam | **81,703** | 43,870 |
| Taiwan | **23,671** | 10,241 |
| United States of America | **51,180** | 27,588 |
| Others | **26,420** | 16,886 |
| | **721,118** | 640,088 |

For the six months ended June 30, 2019, there were two customers (2018: two customers), which individually contributed over 10% of the Group's total revenue. During the period, the revenue contributed from these customers are as follows:

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Customer A | **454,598** | 464,139 |
| Customer B | **410,211** | 441,432 |

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.

## 7 Revenue

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Sales of goods | **1,888,815** | 1,681,368 |
| Provision of services | **5,726** | 8,170 |
| Sales of scrap materials | **23,765** | 29,814 |
| | **1,918,306** | 1,719,352 |

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

## 8 Expenses by nature

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Cost of inventories | **1,025,979** | 861,028 |
| Subcontracting expenses | **131,702** | 170,231 |
| Utilities | **23,870** | 23,573 |
| Employee benefit expenses | **280,695** | 279,719 |
| Amortisation of land use rights (Note 12) | **—** | 305 |
| Amortisation of intangible assets (Note 12) | **20,789** | 2,141 |
| Depreciation of property, plant and equipment (Note 12) | **84,766** | 100,801 |
| Depreciation of right-of-use assets (Note 12) | **10,197** | — |
| Moldings and consumables | **68,732** | 59,912 |
| Legal and professional expenses | **19,521** | 16,002 |
| Share services expenses | **792** | 1,036 |
| Delivery expenses | **27,504** | 15,731 |
| Other tax and related surcharges | **10,267** | 11,398 |
| Provision/(reversal) of impairment for inventories | **7,208** | (1,490) |
| (Reversal)/provision for impairment loss on financial assets | **(117)** | 703 |
| Others | **94,051** | 56,288 |
| | **1,805,956** | 1,597,378 |

## 9 Income tax expense

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

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Current income tax | | |
| — Current tax on profits for the period | **23,385** | 29,546 |
| — Under-provision in prior periods | **—** | 10,570 |
| Deferred income tax | **(6,064)** | (2,807) |
| Income tax expense | **17,321** | 37,309 |

### (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% during the six months ended June 30, 2019 (for the six months ended June 30, 2018: 25%).

Four (for the six months ended June 30, 2018: Four) PRC subsidiaries of the Group are qualified for new/high technology enterprises status and enjoyed preferential income tax rate of 15% for the six months ended June 30, 2019. (for the six months ended June 30, 2018: 15%).

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 for the six months ended June 30, 2019 (for the six months ended June 30, 2018: 15%).

# 9 Income tax expense (continued)

## (b) Taiwan profit-seeking enterprise income tax

Taiwan profit-seeking enterprise income tax has been provided for at the rate of 20% (for the six months ended June 30, 2018: 20%) on the estimated taxable income during the six months June 30, 2019.

## (c) Singapore corporate income tax

For the six months ended June 30, 2019, the 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 six months ended June 30, 2018, 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 subsidiary incorporated in Vietnam, New Wing Interconnect Technology (Bac Giang) Co., Ltd., 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 Company 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.

For the six months ended June 30, 2019, the Vietnam corporate income tax is calculated at the rate of 10% (50% reduction on 20% applicable tax rate) on the chargeable income of the subsidiary incorporated in Vietnam in accordance with Vietnam Corporate Income Tax Law.

## (e) Other foreign countries income tax

Taxes on profits in other foreign countries have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

# 10 Earnings per share

## (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue, excluding treasury shares, during the six months ended June 30, 2019 and 2018.

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| Net profit attributable to the owners of the Company (US$'000) | **101,834** | 107,621 |
| Weighted average number of ordinary shares in issue (in thousands) | **6,583,772** | 6,731,234 |
| Basic earnings per share in US cents | **1.55** | 1.60 |

# 10 Earnings per share (continued)

## (b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the six months ended June 30, 2019, the Group has two (2018: two) categories of dilutive potential ordinary shares.

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.

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| Net profit attributable to the owners of the Company (US$'000) | **101,834** | 107,621 |
| Weighted average number of ordinary shares in issue (in thousand) | **6,583,772** | 6,731,234 |
| Adjustments for: | | |
| — impact of the senior management and employees' share grant schemes (in thousand) | **300,230** | 330,966 |
| Weighted average number of ordinary shares for diluted earnings per share (in thousand) | **6,884,002** | 7,062,200 |
| Diluted earnings per share in US cents | **1.48** | 1.52 |

# 11 Dividend

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 USD60,394,000, has been approved during the annual general meeting held on June 21, 2019.

## 12 Property, plant and equipment, land use rights, right-of-use assets and intangible assets

| (Unaudited) For the six months ended | Property, plant and equipment US$'000 | Land use right US$'000 | Right-of-use assets US$'000 | Intangible assets: Goodwill US$'000 | Intangible assets: Other intangible assets US$'000 |
|---|---|---|---|---|---|
| **June 30, 2019** | | | | | |
| **Net book value** | | | | | |
| At beginning of the period | 599,336 | 20,144 | — | 446,430 | 344,528 |
| Adjustment for change in accounting policy, see note 3.1(a) | — | (20,144) | 74,752 | — | — |
| Restated opening net book amount | 599,336 | — | 74,752 | 446,430 | 344,528 |
| Additions | 118,339 | — | 1,753 | — | 134 |
| Disposals | (3,596) | — | — | — | (3) |
| Depreciation/amortization | (84,766) | — | (10,197) | — | (20,789) |
| Exchange difference | (163) | — | 4 | — | 62 |
| **At end of period** | 629,150 | — | 66,312 | 446,430 | 323,932 |

| (Unaudited) For the six months ended | Property, plant and equipment US$'000 | Land use right US$'000 | Right-of-use assets US$'000 | Intangible assets: Goodwill US$'000 | Intangible assets: Other intangible assets US$'000 |
|---|---|---|---|---|---|
| **June 30, 2018** | | | | | |
| **Net book value** | | | | | |
| At beginning of the period | 675,883 | 21,850 | — | 3,074 | 10,875 |
| Additions | 47,568 | — | — | — | 15,242 |
| Acquisition of subsidiaries | 1,880 | — | — | — | 9,634 |
| Disposals | (3,765) | — | — | — | — |
| Depreciation/amortization | (100,801) | (305) | — | — | (2,141) |
| Exchange difference | (7,975) | (361) | — | — | (173) |
| **At end of period** | 612,790 | 21,184 | — | 3,074 | 33,437 |

## 13 Financial assets at fair value through other comprehensive income

The financial assets at fair value through other comprehensive income ("FVOCI") represent the Group's investment in private companies.

Equity investments at fair value through other comprehensive income include the following:

| | **As at June 30, 2019 US$'000 (unaudited)** | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| Non-current assets | | |
| Equity investments in other entities | | |
| — United States of America | **14,282** | 13,555 |
| — France | **2,826** | 2,826 |
| — Japan | **2,700** | — |
| — The PRC | **728** | — |
| — Taiwan | **675** | 721 |
| | **21,211** | 17,102 |

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

Movements of FVOCI are analyzed as follows:

| For the six months ended | US$'000 (unaudited) |
|---|---|
| **June 30, 2019** | |
| At beginning of period | **17,102** |
| Additions | **4,155** |
| Fair value change in financial assets at fair value through other comprehensive income | **(43)** |
| Exchange difference | **(3)** |
| At end of period | **21,211** |
| **June 30, 2018** | |
| At beginning of period | — |
| Reclassification from available-for-sales financial assets on adoption of IFRS 9 | 10,378 |
| Additions | 1,555 |
| At end of period | 11,933 |

## 14 Trade and other receivables

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| Trade receivables due from third parties | **562,867** | 620,623 |
| Trade receivables due from related parties (Note 20) | **244,432** | 317,413 |
| Less: loss allowance for impairment of trade receivables | **(2,784)** | (2,901) |
| Total trade receivables — net | **804,515** | 935,135 |
| Other receivables | **12,535** | 20,027 |
| Amounts due from related parties (Note 20) | **6,587** | 4,586 |
| Value added tax recoverable | **41,946** | 36,532 |
| Deposits and prepayments | **44,536** | 48,836 |
| | **910,119** | 1,045,116 |
| Less: non-current portion | **(19,457)** | (14,409) |
| | **890,662** | 1,030,707 |

For trade receivables, 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 loss allowance, as at June 30, 2019 and December 31, 2018 was as follows:

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| Within 3 months | **701,200** | 798,063 |
| 3 months to 1 year | **105,736** | 139,828 |
| Over 1 year | **363** | 145 |
| | **807,299** | 938,036 |

## 15 Share capital

| (Unaudited) | Number of shares (in thousand) | US$'000 |
|---|---|---|
| **Ordinary shares, issued and fully paid:** | | |
| As at January 1, 2019 | **6,743,436** | **131,708** |
| Issuance of ordinary shares upon exercise of share option | **28,621** | **559** |
| As at June 30, 2019 | **6,772,057** | **132,267** |
| As at January 1 and June 30, 2018 | 6,733,855 | 131,521 |

## 16 Bank borrowings

| | **As at June 30, 2019 US$'000 (unaudited)** | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| Bank borrowings, unsecured | **887,747** | 989,401 |

For the six months ended June 30, 2019, the Group entered into a new loan facility with a bank. The total available amount under the facility is US$575,000,000 which was drawn down as at June 30, 2019. The bank borrowing is due for repayment on February 25, 2022 with extension option for further 12–24 months.

## 16 Bank borrowings (continued)

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

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| Renminbi ("RMB") | – | 1,456 |
| US$ | 800,818 | 870,106 |
| New Taiwan Dollar ("NTD") | 86,929 | 117,839 |
| | 887,747 | 989,401 |

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

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| 12 months or above | 573,984 | – |
| 12 months or less | 313,763 | 989,401 |
| | 887,747 | 989,401 |

## 16 Bank borrowings (continued)

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

| | As at June 30 2019 (unaudited) | As at December 31 2018 (audited) |
|---|---|---|
| Bank borrowings, unsecured | **2.97%** | 2.74% |

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

## 17 Trade and other payables

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| Trade payables due to third parties | **431,133** | 460,174 |
| Trade payables due to related parties (Note 20) | **276,934** | 261,915 |
| Total trade payables | **708,067** | 722,089 |
| Amounts due to related parties (Note 20) | **95,260** | 109,411 |
| Staff salaries, bonuses and welfare payables | **144,456** | 120,716 |
| Deposit received, other payables and accruals | **227,431** | 256,790 |
| Dividend payable (Note 11) | **60,394** | — |
| | **1,235,608** | 1,209,006 |
| Less: Non-current portion | **(15,465)** | (18,307) |
| | **1,220,143** | 1,190,699 |

## 17 Trade and other payables (continued)

As at June 30, 2019 and December 31, 2018, the aging analysis of the trade payables to third parties and related parties of trading in nature based on invoice date were as follows,

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| Within 3 months | **549,716** | 558,571 |
| 3 months to 1 year | **157,081** | 160,610 |
| Over 1 year | **1,270** | 2,908 |
| | **708,067** | 722,089 |

## 18 Share-based payments

During the six months ended June 30, 2019, the Company had four share-based compensation schemes.

### (a) Senior management share grant plan

In January 2015, 21,840,000 restricted shares (the shares were spilt to 349,440,000 in 2016) 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 2018 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 March 31, 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.

The weighted average fair value of shares granted under this plan determined using the H-model was US$3.95 per share. The significant inputs into the model were weighted average cost of capital of 13.4%, perpetuity growth rate of 3%, discount for lack of marketability of 20% and control premium of 20%. The volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices of comparable companies in the market.

The share-based payment expense incurred for this plan for the six months ended June 30, 2019 was US$3,323,000 (for the six months ended June 30, 2018: US$4,667,000).

## 18 Share-based payments (continued)

### (b) Employees' share grant plan

4,101,500 restricted shares issued to employees by the Company in January 2016 were measured at the fair value on the grant date and recognized as compensation cost over the vesting period. The grantees do not need to pay to acquire those shares. Issuance of shares is based on grantees' service periods and certain performance indications. Shares will be vested from December 31, 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 under this plan determined using the market approach was US$6 per share. The significant input applied in this approach was price/earnings ratio of 13.5.

Certain employees left and forfeited the share, the reversal of the share-based payment expense incurred for this plan for the six months ended June 30, 2019 was US$669,000 (the share-based expenses incurred for this plan for the six months ended June 30, 2018: US$1,220,000).

### (c) Share option scheme

(i) On January 18, 2018, the Company granted certain eligible employees an aggregated 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 were vested on June 10, 2018. The New Options are exercisable over a period of three years commencing on June 11, 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.

At the initial date of grant, the fair value of the Options determined using the Black-Scholes model was US$3,860,000. 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 US$1,500,000. 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 share-based payment expense was fully vested during the year ended December 31, 2018. No share-based payment incurred under this share option scheme for the six months ended June 30, 2019 (for the six months ended June 30, 2018: US$5,360,000).

## 18 Share-based payments (continued)

### (c) Share option scheme (continued)

(ii) 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.

For 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 US$6,139,000. 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 expense incurred under this transaction for the six months ended June 30, 2019 was US$1,868,000 (for the six months ended June 30, 2018: Nil) (unaudited).

### (d) Share award scheme

(i) On May 21, 2018, the Company adopted the restricted share award scheme to provide incentive to encourage the participating employees 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 six months ended June 30, 2019, 15,975,000 treasury shares (for the six months ended June 30, 2018: 56,222,000 treasury shares) were purchased on the market under the share award scheme at consideration of approximately US$6,994,000 (for the six months ended June 30, 2018: US$24,967,000). The Group did not award treasury shares (for the six months ended June 30, 2018: 2,847,000 treasury shares) and no share-based payments expense (for the six months ended June 30, 2018: US$1,400,000) was recognized accordingly.

## 18 Share-based payments (continued)

### (d) Share award scheme (continued)

(ii) On March 26, 2019, the Company adopted the second restricted share award scheme to provide incentive to encourage the participating employees for their contribution to the Group. The Second Scheme shall be subject to the administration of the administration committee and the Trustee in accordance with the scheme rules and the trust deed. The Trustee shall hold the trust fund in accordance with the terms of the Trust Deed.

No shares shall be purchased pursuant to the Second Scheme if as a result of such purchase, the number of Shares administered under the Second Scheme shall exceed 674,353,688 Shares, being 10% of the issued share capital of the Company at the date of the adoption of the Second Scheme, or such other limit as determined by the administration committee at its sole discretion. The maximum number of award shares which may be granted to a selected participant at any one time or in aggregate may not exceed 67,435,368 Shares, being 1% of the issued share capital of the Company at the same date.

Subject to any early termination as may be determined by the board, the Second Scheme shall remain valid and effective for a period of ten years from the date of the adoption of the Second Scheme, and can be terminated and extended by a resolution of the Board.

During the six months ended June 30, 2019, 9,483,000 treasury shares were purchased on the market under the second restricted share award scheme at consideration of approximately US$3,766,000. The Group has not awarded any treasury shares to eligible employees and no share-based payments expense was recognized.

## 19 Commitments

### Capital commitments

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

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| Financial assets at fair value through other comprehensive income | 8,717 | 9,445 |
| Property, plant and equipment | 3,786 | 2,026 |
| Right-of-use assets | 7,740 | — |
| | 20,243 | 11,471 |

## 20 Related-party transactions

In addition to the information disclosed elsewhere in the condensed consolidated interim financial information, the following transactions took place between the Group and its related parties, which are mainly Hon Hai, subsidiaries of Hon Hai and associates of Hon Hai, at terms agreed between the parties.

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

| | For the six months ended June 30, 2019 US$'000 (unaudited) | 2018 US$'000 (unaudited) |
|---|---|---|
| (i) Sales of goods | | |
| — Subsidiaries of Hon Hai | 256,943 | 340,750 |
| — Associates of Hon Hai | 137,309 | 79,220 |
| — Hon Hai | 4,076 | 4,715 |
| | 398,328 | 424,685 |

## 20 Related-party transactions (continued)

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

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| (ii) Sales of services | | |
| — Subsidiaries of Hon Hai | **11,231** | 16,710 |
| — Associates of Hon Hai | **652** | 37 |
| | **11,883** | 16,747 |
| (iii) Purchase of goods | | |
| — Subsidiaries of Hon Hai | **51,496** | 168,551 |
| — Associates of Hon Hai | **192,586** | 69,913 |
| — Hon Hai | **5,582** | 23,124 |
| | **249,664** | 261,588 |
| (iv) Purchase of property, plant and equipment | | |
| — Subsidiaries of Hon Hai | **27** | 457 |
| — Associates of Hon Hai | **15,090** | 1,133 |
| — Hon Hai | **—** | 1,856 |
| | **15,117** | 3,446 |
| (v) Subcontracting expenses | | |
| — Subsidiaries of Hon Hai | **48,474** | 50,065 |
| — Associates of Hon Hai | **275** | 2 |
| — Hon Hai | **1** | 278 |
| | **48,750** | 50,345 |
| (vi) Shared services expenses | | |
| — Subsidiaries of Hon Hai | **792** | 1,036 |
| | **792** | 1,036 |

## 20 Related-party transactions (continued)

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

| | For the six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| (vii) Molding costs | | |
| — Subsidiaries of Hon Hai | **33,542** | 30,727 |
| — Associates of Hon Hai | **111** | 39 |
| — Hon Hai | **2** | — |
| | **33,655** | 30,766 |
| (viii) Rental income | | |
| — Subsidiaries of Hon Hai | **741** | 588 |
| — Associates of Hon Hai | **240** | 127 |
| | **981** | 715 |
| (ix) Rental expenses | | |
| — Subsidiaries of Hon Hai | **2,002** | 930 |
| — Associates of Hon Hai | **21** | 379 |
| — Hon Hai | **436** | 718 |
| | **2,459** | 2,027 |
| (x) Key management compensation | | |
| Salaries, wages and bonuses | **5,981** | 6,443 |
| Pension, housing fund, medical insurance and other social insurance | **97** | 150 |
| Share-based payment expenses | **3,323** | 328 |
| | **9,401** | 6,921 |

The related party transactions as set out under (i) to (ix) above 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 terms of the underlying agreements.

## 20 Related-party transactions (continued)

### (b) Balances with related parties:

**Amounts due from related parties:**

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| (i) Trade receivables: | | |
| — Subsidiaries of Hon Hai | **176,660** | 238,521 |
| — Associates of Hon Hai | **66,236** | 77,177 |
| — Hon Hai | **1,536** | 1,715 |
| | **244,432** | 317,413 |
| (ii) Other receivables: | | |
| — Subsidiaries of Hon Hai | **5,870** | 3,346 |
| — Associates of Hon Hai | **717** | 1,240 |
| | **6,587** | 4,586 |
| (iii) Prepayment: | | |
| — Subsidiaries of Hon Hai | **452** | 6,319 |
| — Associates of Hon Hai | **15,570** | 7,811 |
| | **16,022** | 14,130 |

# 20 Related-party transactions (continued)

## (b) Balances with related parties: (continued)

**Amounts due to related parties:**

| | As at June 30, 2019 US$'000 (unaudited) | As at December 31, 2018 US$'000 (audited) |
|---|---|---|
| (i) Trade payables: | | |
| — Subsidiaries of Hon Hai | **252,995** | 207,579 |
| — Associates of Hon Hai | **23,939** | 54,089 |
| — Hon Hai | **—** | 247 |
| | **276,934** | 261,915 |
| (ii) Other payables: | | |
| — Subsidiaries of Hon Hai | **81,951** | 106,721 |
| — Associates of Hon Hai | **13,309** | 2,277 |
| — Hon Hai | **—** | 413 |
| | **95,260** | 109,411 |
| (iii) Payable for acquisition of license: | | |
| — Hon Hai | **5,699** | 6,460 |

# 21 Pledge of assets

As of June 30, 2019, bank deposits of US$2,009,000 were pledged as customs guarantee (December 31, 2018: US$5,387,000).

# Other Information

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

As at June 30, 2019, 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) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### (i) Long positions in ordinary shares of the Company

| 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 | 123,720,000 | 1.83% |
| LU Pochin Christopher (盧伯卿) | Beneficial owner | 12,512,000 | 0.18% |
| PIPKIN Chester John[2] | Beneficial owner | 1,790,000 | 0.03% |

Note:

1. LU Sung-Ching is also interested in 321,440,000 Shares under the Share Grant Scheme.

2. PIPKIN Chester John is also interested in 200,000 share options granted by the Company under the Share Option Scheme.

### (ii) Long position in the share capital or debentures of the associated corporations of the Company

| Name of Director | Name of associated corporation of the Company | Capacity and nature of interest | Number of shares in the corporation | Approximate percentage of shareholding |
|---|---|---|---|---|
| PIPKIN Chester John | FIT CHB Holdco, Inc. | Beneficial owner | 450,000 | 9.57% |

Save as disclosed above, as at June 30, 2019, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) that was recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sub-sections headed "Share Grant Scheme", "Share Option Scheme" and "Restricted Share Award Schemes" of this section, at no time during the six months ended June 30, 2019 were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or minor children, or were there any such rights exercised by the Directors; or was the Company, or any of its holding companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at June 30, 2019, 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 Shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Hon Hai | Interest in controlled corporation[1] | 5,179,557,888 | 76.48% |
| Foxconn (Far East) Limited ("Foxconn Far East Cayman")* | Interest in controlled corporation[2] | 5,179,557,888 | 76.48% |
| Foxconn (Far East) Limited ("Foxconn Far East Hong Kong")** | Beneficial owner | 5,179,557,888 | 76.48% |

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

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

Notes:

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

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

Save as disclosed above, as at June 30, 2019, 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" in the Prospectus for further details of the Share Grant Scheme.

As at 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 | 321,440,000 |

## 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 was 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, 2019 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | As of June 30, 2019 | 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 shre immediately before the date(s) on which options were exercised HK$ |
| PIPKIN Chester John | 200,000 | – | – | – | – | 200,000 | December 28, 2018 | December 28, 2019 to December 28, 2022 | 3.380 | 3.422 | – |
| Employees in aggregate | 22,463,200 | – | 621,000 | 883,400 | – | 20,958,800 | May 25, 2018 | June 11, 2018 to June 10, 2021 | 3.800 | 3.690 | 3.907 |
| | 9,800,000 | – | – | 925,000 | – | 8,875,000 | 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 | – | – | 3,640,000 | – | 27,940,000 | 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 | – |
| | 64,226,200 | – | 621,000 | 5,448,400 | – | 58,156,800 | | | | | |

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 June 30, 2019, the trustee of the First Restricted Share Award Scheme had purchased 177,776,000 Shares on the Stock Exchange for a total consideration of HK$631,098,377.78 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.

As of June 30, 2019, the trustee of the Second Restricted Share Award Scheme had purchased 9,483,000 Shares on the Stock Exchange for a total consideration of HK$29,540,332.11 and no Share had been granted to the selected participants.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save as disclosed under the section headed "Restricted Share Award Schemes", during the six months ended June 30, 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE PRACTICE

The Board is committed to maintaining high corporate governance standards.

During the six months ended June 30, 2019, the Company had applied the principles as set out in the CG Code contained in Appendix 14 to the Listing Rules which are applicable to the Company, and had complied with all applicable code provisions as set out in the CG Code, except the code provision as mentioned below.

Code provision A.2.1 states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. LU Sung-Ching is both our chairman and chief executive officer, and is responsible for the overall management of our Group and directing the strategic development and business plans of our Group. Given the current stage of development of our Group, the Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. We shall nevertheless review the structure from time to time in light of the prevailing circumstances. The Board will continue to review the situation and consider splitting the roles of chairman and chief executive officer of the Company in due course after taking into account of the then overall circumstances of the Group.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. The Company had made specific inquiries to all Directors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code during the six months ended June 30, 2019.

## DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' biographical details from the publication of the Company's 2018 annual report up to the Latest Practicable Date, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

| Name of Director | Details of Changes |
|---|---|
| LU Sung-Ching | Appointed as a director of Hon Hai with effect from June 21, 2019. |
| CHAN Wing Yuen Hubert | The name of Northern New Energy Holdings Limited, of which Mr. Chan is an executive director and the chief executive officer, has been changed to "Zhonghua Gas Holdings Limited". |
| TRAINOR-DEGIROLAMO Sheldon | Appointed as an independent non-executive Director with effect from May 10, 2019. |
| CHEN Ga-Lane | Resigned as a non-executive Director with effect from May 10, 2019. |

Save as disclosed above, there is no other information in respect of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the Company's 2018 annual report.

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Messrs. TANG Kwai Chang, CURWEN Peter D and CHAN Wing Yuen Hubert. The unaudited condensed consolidated interim financial information of our Group for the six months ended June 30, 2019 and this interim report have been reviewed by the Audit Committee.

PricewaterhouseCoopers, the external auditor of the Company, has also reviewed the unaudited condensed consolidated interim financial information for the period in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

## APPENDIX 16 TO THE LISTING RULES

According to paragraph 40 of Appendix 16 to the Listing Rules headed "Disclosure of Financial Information", save as disclosed herein, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2018 annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Reference is made to the section headed "Waivers from Compliance with the Listing Rules — Waiver in relation to Public Float" in the Prospectus which states that the Company's minimum public float will be the higher of (a) 15% of the total issued share capital of the Company; (b) such percentage of Shares held by the public immediately after completion of the Global Offering (as defined in the Prospectus) (assuming the Over-allotment Option (as defined in the Prospectus) is not exercised); or (c) such percentage of Share to be held by the public after the exercise of the Over-allotment Option (as defined in the Prospectus), of the enlarged issued share capital of the Company. The applicable minimum public float for the Shares is 20.48%. Based on the information publicly available to the Company and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float as approved by the Stock Exchange and as permitted under the Listing Rules throughout the six months ended June 30, 2019.

# Definitions

| | |
|---|---|
| "Audit Committee" | the audit committee of the Board; |
| "Avago" | Avago Technologies Wireless (U.S.A.) Manufacturing Inc., a company formed and incorporated under the laws of the State of Delaware, the United States, and a subsidiary of Broadcom Inc. which is listed on the Nasdaq Stock Market of the United States (Ticker Symbol: AVGO); |
| "Belkin International" | Belkin International, Inc., a company formed and incorporated under the laws of the State of Delaware, the United States; |
| "Board" | 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 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; |
| "Hon Hai Group" | Hon Hai and its subsidiaries and (where relevant) 30%-controlled entities and, for the purpose of this report, excluding the Group; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC; |

| | |
|---|---|
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong; |
| "IFRS" | International Financial Reporting Standards; |
| "IPO" | the initial public offering of Shares and listing of the Group on the Stock Exchange on July 13, 2017; |
| "JPY" | Japanese yen, the lawful currency of Japan; |
| "Latest Practicable Date" | August 12, 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this report; |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange, as amended and supplemented from time to time; |
| "Mexico" | the United Mexican States; |
| "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" or "Renminbi" | 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); |
| "Shares(s)" | ordinary share(s) 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; |

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