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 Annual Report

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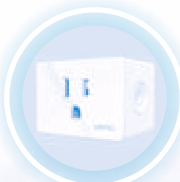

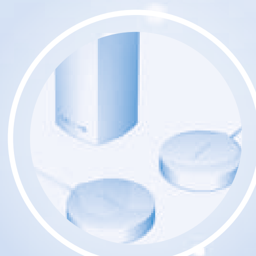

Corporate Information

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

Independent non-executive Directors

CURWEN Peter D

TANG Kwai Chang (鄧貴彰)

CHAN Wing Yuen Hubert (陳永源)

TRAINOR-DEGIROLAMO Sheldon

JOINT COMPANY SECRETARIES

WONG Kenneth Tak-Kin (黃德堅)

NG Sau Mei (伍秀薇) *(FCIS, FCS)*

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)*

TANG Kwai Chang (鄧貴彰)

TRAINOR-DEGIROLAMO Sheldon

NOMINATION COMMITTEE

LU Sung-Ching (盧松青) *(Chairman)*

CHAN Wing Yuen Hubert (陳永源)

CURWEN Peter D

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

Registered Public Interest Entity Auditor

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

PRINCIPAL PLACE OF BUSINESS AND ADDRESS OF HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

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

WEBSITE

http://www.fit-foxconn.com

Financial Highlights

	Year ended December 31, 2019 USD'000 Audited	2018 USD'000 Audited	2017 USD'000 Audited	2016 USD'000 Audited	2015 USD'000 Audited
Key income statement items					
Revenue	**4,372,382**	4,005,635	3,398,803	2,880,260	2,327,902
Gross Profit	**754,195**	708,077	569,444	490,410	435,240
Operating profit	**275,170**	308,552	219,826	209,954	209,222
Profit attributable to owners of the Company	**235,414**	233,946	180,486	168,562	177,009

	Year ended December 31, 2019 USD'000 Audited	2018 USD'000 Audited	2017 USD'000 Audited	2016 USD'000 Audited	2015 USD'000 Audited
Key balance sheet items					
Current assets	**2,741,909**	2,752,810	2,412,019	1,843,319	1,531,175
Total assets	**4,407,029**	4,309,744	3,180,634	2,614,699	2,266,396
Total equity	**2,077,347**	1,947,328	1,893,903	1,283,984	1,186,557
Current liabilities	**1,662,178**	2,269,086	1,276,874	1,329,368	1,077,260
Total liabilities	**2,329,682**	2,362,416	1,286,731	1,330,715	1,079,839

	Year ended December 31, 2019 USD'000 Audited	2018 USD'000 Audited	2017 USD'000 Audited	2016 USD'000 Audited	2015 USD'000 Audited
Key financial ratios					
Gross profit margin	**17.2%**	17.7%	16.8%	17.0%	18.7%
Operating profit margin	**6.3%**	7.7%	6.5%	7.3%	9.0%
Margin of profit attributable to owners of the Company	**5.4%**	5.8%	5.3%	5.9%	7.6%

	Year ended December 31, 2019 USD'000 Audited	2018 USD'000 Audited	2017 USD'000 Audited	2016 USD'000 Audited	2015 USD'000 Audited
Key operating ratios					
Average inventory turnover days[1]	**68**	65	58	47	47
Average trade receivables turnover days[2]	**78**	88	97	90	106
Average trade payables turnover days[1]	**71**	73	74	70	71

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

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

Chairman's Statement

Dear shareholders,

On behalf of the Board, I am pleased to announce that although it was challenging in 2019 and the global market and the overall economy were hit by the trade war, FIT achieved its goal of performance growth due to our constant endeavor to develop and integrate our business in various industries.

Faced with the global epidemic, I have confidence in the competitiveness of the Company even if the coming year may be more challenging. FIT will make appropriate and timely actions based on changes in the global market, continue to aggressively make progress in 5G, automotive electronics, smart accessories and smart home markets and implement the ongoing shareholder-oriented strategy of the Company for continuing to create long-term value for shareholders.

DEVELOPMENT STRATEGIES

Under the background of the rapid development of 5G, Internet of Things and other technologies, FIT continued to expand and intensively penetrate into its business model based on the cutting-edge plan for the product and technology in 2019, achieving steady development in various areas. In 2019, FIT successfully completed the consolidation of Belkin International Inc. ("Belkin"), and optimized the operation management and manufacturing costs while further strengthening its position in the smart accessories and smart home market. Meanwhile, through the increase in its investment in Kantatsu, the Company continued to deepen the cooperation with Kantatsu to gradually enhance the technology and service in respect of automotive cameras. On this basis, the Company continued to increase the investment in Vietnam, to reduce the comprehensive production costs so as to improve its competitiveness. With the accelerating industry development and transformation, the Company's operating team will uphold its innovative and transformative thinking, to drive the next generation of growth momentum under the new wave of technological development.

REVIEW OF 2019 RESULTS

In 2019, FIT achieved substantial expansion in the automotive businesses, smart accessories and smart home businesses through its organic growth and acquisitions. With the efforts of our teams, we also recorded an increase in net profit as compared with 2018.

FUTURE PROSPECTS

With the rapid development of smart life, the demand for household, automotive and mobile devices and big data applications continues to increase. FIT, as the world's leading developer and manufacturer of connectivity solutions, will combine B2C and B2B cross-field R&D, production, manufacturing, sales and self-owned branding capabilities to provide fascinating user experience for consumers around the world. Belkin, Linksys, Wemo and Phyn will launch a series of smart life products to meet the needs of smart household life. In respect of the business development of various smart accessories, wearing stylish, highly functional and true wireless bluetooth earphones has become an emerging trend. Belkin will also continue to focus on expanding the audio products that consumers are increasingly relying on to maximize the smart life experience.

In addition, we continue to pay attention to the development of electronic technology in the automotive industry. Electronic vehicles are undeniably a major trend. We are at the forefront of the automotive revolution. Traditional supply chains will need to develop towards the direction of in-vehicle electronic ecosystems. Whether driven by the regulations of various countries or the needs of vehicle owners, the requirements and applications of electronic vehicles will increase. Our product technology layout will focus on the development of electronic vehicles, intelligence and interconnection of vehicles. FIT is expected to participate in and lead the electronic development of the automotive industry, and become a leading Tier 1 supplier worldwide, taking into account FIT's advantages in the management and control of supply chain and integration of upstream and downstream resources in the industrial chain.

FIT and Belkin will continue to work together to become a global consumer electronics leader. By virtue of top-level manufacturing and R&D, design, sales and marketing capabilities, we will continuously develop and expand markets capitalized on the vertical integration synergy. With FIT's technology and management capabilities, as well as our advantages in brands and channels, we believe that the future is full of opportunities for growth.

APPRECIATION

I would like to thank our customers, our business partners, our employees for making fiscal 2019 a success. We manage FIT for the long term, and the Company is fundamentally strong through disruptive opportunities. I look forward to another great year in 2020 and thank our shareholders for the continued support.

Chairman
LU Sung-Ching

Management Discussion and Analysis

BUSINESS OVERVIEW AND OUTLOOK

Business Overview

In 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. With these efforts, we experienced significant growth in our business. Our revenue amounted to US$4,372 million, representing a 9.2% growth, and our profit amounted to US$233.3 million, representing a 0.3% growth, each compared to the year ended December 31, 2018. As discussed in more details in the "Results of Operations" section below, our sales in most end markets increased and net profit slightly increased, thanks to our strategic focus based on correct anticipation of industry trends. We will continue to move our production plants to Vietnam to reduce our labor cost and prudently control costs.

The mobile devices continued to be our largest revenue contributor by end market. In 2019, there was a decrease in revenue of certain products mainly due to the cancellation of the standard configuration of earphone adapters by brand companies for their new smart phones, but the lightning plug and earphone business recorded a growth, which made up the performance gap. As a result, our revenue from the mobile devices market increased by 1.6% for the year ended December 31, 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 decrease in our CPU socket and memory card slot product business, and the demand for some optical modules recorded a decrease due to the Sino-US trade conflicts. As a result, our revenue from the communications infrastructure end market decreased by 5.8% for the year ended December 31, 2019 compared to the same period in 2018.

Our revenue from computer and consumer electronics end market decreased by 14.9%, which was primarily due to the changes in terminal product structure and intensified market competition, and our adjustment of product structure to maintain gross profit.

Furthermore, we continued to strategically pursue opportunities in automotive and other emerging applications for our interconnect solutions and other products. Therefore, 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 invest and collaborate in the development of interconnect solutions and other products that can be utilized in a wide variety of applications in the automotive industry. As a result of these efforts, our revenue from the automotive, industrial and medical end market increased by 62.3% in 2019 compared to the same period in 2018.

Finally, as we successfully merged with Belkin International, a world-recognized consumer electronics product brand, in 2018, our business in the connected home end market grew rapidly. For the year ended December 31, 2019, our revenue from the connected home end market increased by 622.0% compared to the same period in 2018.

As a result of this merger, we also significantly increased our business in the smart accessories end market, for the year ended December 31, 2019, our revenue from the smart accessories market increased by 83.7% 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 advanced market players, including us, and first movers are more likely to seize emerging market opportunities as well as to build their brand awareness globally, leading to a fast expansion of their 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. 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, and smartphones in particular, drives demand for various smart accessories products, such as chargers and earphones. For example, USB Type-C is a new trend in the connector market as it 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 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 attributable to technological advancement, such as the adoption of 5G network in the business sector in the 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 brings in secure and 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, i.e. 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.

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. As the global connector industry is undergoing 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, generally speaking, computer and consumer electronics end market is expected to stay approximately flat compared to other major end markets.

Automotive, industrial and medical. We expect that the demand for connectors applied in the automotive end market will 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. With the rapid development of connected home, household appliances become more and more interconnected, so they are equipped with more interconnect equipment. With the development of the Internet of Things, the applications continue to expand, and there will be more physical interfaces of data transmission required by the Internet of Things.

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

Business Prospects

We anticipate the overall connector industry, particularly the end markets we strategically focus on, will continue to grow in 2020. We plan to continue our strategic focus on the mobile devices, automotive, industrial and medical end markets, and expect that our development in these end markets will be the main driver of our growth in 2020. 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 true wireless stereos (TWS) 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 devices end market. We anticipate that this end market will continue to be our main revenue contributor.

- *Communications infrastructure.* Revenue will be generated from products such as connectors, antennas, optical modules and routers used in communications through penetrating 5G markets.

- *Computer and consumer electronics.* The industry is expected to have continuous slow-down. Therefore, we will focus on profitability rather 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, industrial and medical.* We believe the demand from our key customers in this end market will continue to be strong, and we expect to benefit from the 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 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 the automotive electronics market.

- *Connected home.* We will strengthen the development of smart products in the field related to home living and provide novel design of smart products, thus providing more comfort and convenience for home living for consumers. And this expectation has been strongly proved in the CES 2020 exhibition, where we introduced WiFi 6 Mesh router systems and 5G mobile hotspot, modem and Mesh Gateway. A new commercial Phyn solution will be launched this year in addition to new software features added to the robust Velop system which will allow consumers to unlock motion, breathing and fall detection in their homes by using radio waves of the Velop router system. We expect to achieve good results in the connected home market.

- *Smart accessories.* In the CES 2020 exhibition, we introduced powerful new GaN chargers, wireless charging docks, screen protection solutions and an entire portfolio of audio products. With the Belkin brand and the Group’s resources, we expand the product lines and acquire market share by leveraging the sales network of our global partners channel.

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 molding parts, sample products and other sales. For the year ended December 31, 2019, our revenue amounted to US$4,372 million, representing a 9.2% increase from US$4,006 million in the same period in 2018. Among the six main end markets, our revenue from (1) the mobile devices end market increased by 1.6%, (2) the communications infrastructure end market decreased by 5.8%, (3) the computer and consumer electronics end market decreased by 14.9%, (4) the automotive, industrial and medical end market increased by 62.3%, (5) the connected home end market increased by 622.0%, and (6) the smart accessories end market increased by 83.7%. The following table sets forth our revenue by end markets in absolute amounts and as percentages of revenue for the periods indicated:

	For the year ended December 31,			
	2019		2018	
	US$	**%**	US$	%
	(in thousands, except for percentages)			
Mobile devices	**1,739,108**	**39.8**	1,712,332	42.8
Communications infrastructure	**884,544**	**20.2**	938,582	23.4
Computer and consumer electronics	**794,596**	**18.2**	933,801	23.3
Automotive, industrial and medical	**129,414**	**2.9**	79,728	2.0
Connected home	**265,557**	**6.1**	36,781	0.9
Smart accessories	**559,163**	**12.8**	304,411	7.6
Total	**4,372,382**	**100.0**	4,005,635	100.0

Mobile devices. The revenue from the mobile devices end market increased by 1.6%, which was primarily due to continuous increase of sales of interconnect solutions utilized in the new smartphone products released by a brand company customer, the earphones associated with such smartphone products, as well as other associated products such as lightning plugs, cables and connectors.

Communications infrastructure. The revenue from the communications infrastructure end market decreased by 5.8%, which was primarily due to the decrease in the shipments of our optical modules as a result of the Sino-US trade conflicts.

Computer and consumer electronics. The revenue from the computer and consumer electronics end market decreased by 14.9%, which was primarily due to our adjustment to the product structure to preserve gross profit margin as a result of changes in the structure of end products and intensified market competition.

Automotive, industrial and medical. The revenue from the automotive, industrial and medical end market increased by 62.3%, which was primarily due to our efforts in the research and development in the automotive application area and the completion of the integration of Sharp's businesses including the vehicle camera business in the second half of 2018.

Connected home. The revenue from the connected home end market increased by 622.0%, which was mainly due to the completion of our acquisition of Belkin International by way of merger in September 2018.

Smart accessories. The revenue from the smart accessories end market increased by 83.7%, which was mainly due to the completion of our 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 9.7% from US$3,298 million in 2018 to US$3,618 million 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. In 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 6.5% from US$708 million in 2018 to US$754 million in 2019, but our gross profit margin decreased from 17.7% in 2018 to 17.2% in 2019 as a result of the decline in the revenue from some of our communication products with high gross profit margin due to the Sino-US trade conflicts.

Distribution Costs and Selling Expenses

Our distribution costs and selling expenses increased by 29.4% from US$85 million in 2018 to US$111 million in 2019, primarily due to an increase in delivery expenses and import and export expenses associated with the increase in revenue.

Administrative Expenses

Our administrative expenses increased by 25.9% from US$126 million in 2018 to US$159 million in 2019, as we incurred more legal and professional expenses and compensation expenses of employees to support our business operation.

Research and Development Expenses

Our research and development expenses primarily consist of: (1) employee benefit expenses paid to our research and development personnel, (2) molding and consumables expenses relating to the molds 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 10.0% from US$227 million in 2018 to US$250 million in 2019, mainly due to the investments in the research and development of 400G optical communications products and automobile application products.

Operating Profit and Operating Profit Margin

As a result of the foregoing, although our sales of products continued to increase, the overall gross profit margin in 2019 decreased as a result of the impact of the Sino-US trade conflicts and the decline in the revenue from some of our communication products with high gross profit margin. Meanwhile, our selling expenses and administrative expenses and research and development expenses increased as a result of operation needs, which made our operating profit decrease by 10.8% from US$309 million in 2018 to US$275 million in 2019 and our operating profit margin decrease from 7.7% in 2018 to 6.3% in 2019.

Income Tax Expense

We incur income tax expenses primarily relating to our operations in China, Taiwan, United States and Vietnam. Our income tax expenses decreased by 58.6% from US$79 million in 2018 to US$33 million in 2019. Effective income tax rate decreased from 25.3% to 12.3%, primarily due to the payment of tax payable in prior years in 2018.

Profit for the year

As a result of the decrease in income tax expenses, profit for the year increased by 0.3% from US$232.7 million in 2018 to US$233.3 million in 2019. Our profit margin decreased from 5.8% in 2018 to 5.3% 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 December 31, 2019, we had cash and cash equivalents of US$892 million, compared to US$1,065 million as of December 31, 2018. In addition, as of December 31, 2019, we had short-term bank deposits of US$118 million, compared to US$6 million as of December 31, 2018.

As of December 31, 2019, we had total bank borrowings of US$1,068 million, including short-term borrowings of US$494 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 obtained short-term bank borrowings mainly for our working capital purpose and to supplement our needs for investment. 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 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 December 31, 2019, we had fully utilized this new facility. The increase in short-term bank borrowings in 2019 was primarily for the purchase of production facilities.

Our current ratio, calculated using current assets divided by current liabilities, was 1.6 times as of December 31, 2019, compared to 1.2 times as of December 31, 2018. Our quick ratio, calculated using current assets less inventories divided by current liabilities, was 1.2 times as of December 31, 2019, compared to 0.9 times as of December 31, 2018. The improvement in our current ratio and quick ratio was primarily due to the repayment of the short-term bank borrowings for the acquisition of Belkin International by utilizing the long-term borrowings of syndicated loan in February 2019.

Cash Flow

In 2019, our net cash generated from operating activities was US$313 million, net cash used in investing activities was US$417 million, and net cash used in financing activities was US$64 million.

Capital Expenditures

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

In 2019, our capital expenditures amounted to US$288 million, as compared to US$135 million in 2018. The capital expenditures in 2019 were primarily used for upgrading, maintaining and converting production facilities, including expanding site and equipment of the factory in Vietnam and converting production facilities for optical products.

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. ("Kantatsu") (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 73,682.30 square meters ("Zone A") at a consideration of 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 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 181,028 square meters (the "Zones B to E") at a consideration of 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 US$90,515 (excluding value-added tax). For further details, please refer to the Company's announcement dated March 21, 2019.

On October 17, 2019, Foxconn Interconnect Technology Singapore Pte. Ltd. (a wholly-owned subsidiary of the Company) entered into a share purchase agreement with Sharp, pursuant to which the former agreed to acquire and the latter agreed to sell certain preferred shares of Kantatsu, representing 26.83% of the entire equity interest in Kantatsu on a fully converted basis, at a total consideration of JPY5,904,993,000 (approximately US$54,226,000). For further details, please refer to the Company's announcements dated October 17, 2019 and October 29, 2019.

Save as disclosed above, we did not have any significant investments, material acquisitions or material disposals in the year ended December 31, 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 strengthen inventory management. Our average number of inventory turnover days for the year ended December 31, 2019 was 68 days as compared to 65 days in 2018. The higher inventory turnover days for the year ended December 31, 2019 was primarily due to the change in product mix which consumer products take longer turnover periods.

Our inventories increased from US$650 million as of December 31, 2018 to US$703 million as of December 31, 2019, primarily due to the expansion of our factory in Vietnam and our early stock preparation as a result of the earlier arrival of Chinese New Year in 2020 than 2019.

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 number of trade receivables turnover days decreased from 88 days in 2018 to 78 days in 2019, mainly due to the mix of customers and our continued efforts in enhancing the collection of trade receivables. Our average number of trade receivables turnover days for related parties in 2019 was 125 days, as compared to 111 days for 2018.

Our trade receivables decreased from US$935 million as of December 31, 2018 to US$930 million as of December 31, 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 number of trade payables turnover days in 2019 was 71 days, remaining stable as compared to 73 days in 2018.

Our trade payables decreased from US$722 million as of December 31, 2018 to US$691 million as of December 31, 2019, which was comparable to that of 2018.

Major Capital Commitments

As of December 31, 2019, we had capital commitments of US$62 million, which was primarily connected with the purchase of property, plant and equipment related to our production facilities and investments.

Contingent Liabilities

As of December 31, 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 December 31, 2019, our gearing ratio, calculated as net debts (which are calculated as total borrowings less cash and cash equivalents and short term bank deposits) divided by total capital, was 2.7% (as of December 31, 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.

The use of proceeds is set out as below:

Item	Available on December 31, 2018 (US$' 000)	Utilized between December 31, 2018 and December 31, 2019 (US$' 000)	Unutilized as at December 31, 2019 (US$' 000)
Investment in new interconnect technologies and solutions for batteries for electric vehicles and for electronic vehicle connectivity solutions	29,550	0	29,550
Establish an enhanced management information technology platform including purchase of enterprise resource planning systems and modules, as well as implementation	15,683	3,785	11,898
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 December 31, 2019 (US$'000)	Expected timeline
Investment in new interconnect technologies and solutions for batteries for electric vehicles and for electronic vehicle connectivity solutions	**29,550**	The remaining amount is expected to be fully utilized by the second half of 2020.
Establish an enhanced management information technology platform including purchase of enterprise resource planning systems and modules, as well as implementation	**11,898**	The remaining amount is expected to be fully utilized by the second half of 2020.

PLEDGE OF ASSETS

As of December 31, 2019, the bank deposits totaling RMB14.77 million of Chongqing Hon Teng Technology Co., Ltd. (重慶市鴻騰科技有限公司), Huaian Fu Li Tong Trading Co., Ltd. (淮安市富利通貿易有限公司) and Fu Sheng Optoelectronics Technology (Kun Shan) Co., Ltd. (富聖光電科技(昆山)有限公司) have been pledged as customs guarantee.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As of December 31, 2019, we had approximately 47,163 employees, as compared to 40,500 employees as of December 31, 2018. In 2019, total employee benefit expenses, including Directors' remuneration, were US$622 million, as compared to US$604 million 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 incentives 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. The majority of our Group's entities are exposed to foreign currency risks related to purchasing, selling, financing and investing in currencies other than the functional currencies in which we operate. As we enter into transactions denominated in currencies other than the functional currencies in which we or our subsidiaries operate, we face foreign currency transaction risk to the extent that the amounts and relative proportions of various currencies in which our costs and liabilities are denominated deviate from the amounts and relative proportions of the various currencies in which our sales and assets are denominated.

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

To further mitigate the foreign exchange risk, we have also adopted a prudent foreign exchange hedging policy. We have implemented internal procedures to monitor our hedging transactions which include limitations on transaction types and transaction value, formulation and review of hedging strategies in light of different market risks involved and other risk management measures. Under such policy, we enter into forward foreign exchange contracts for hedging purposes only but not for speculative purposes. As of December 31, 2019, the nominal principal amount of our forward foreign exchange contracts was US$852 million.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LU Sung-Ching (盧松青), (also known as Sidney Lu), aged 61, was appointed as our executive Director on December 30, 2013. He is also the chairman and chief executive officer of our Company. Mr. Lu has extensive experience in the interconnect technology business and is primarily responsible for the overall management and operation, including formulating and leading the implementation of development strategies and business plans of our Group and overseeing the management and strategic development of our Group. Mr. Lu worked at General Motors Company between 1981 and 1988 in their Packard Electric Division in Ohio, carrying out load flow and dynamic analyses for connectors. Furthermore, he was involved in manufacturing work at TE Connectivity Ltd. (previously known as AMP Incorporated), a company engaged in the connector manufacturing business, between 1988 and 1990. Mr. Lu joined Hon Hai in January 1990 and held a number of positions, including manager, deputy general manager and general manager, during his more than three decades of experience developing its interconnect technology business. Prior to joining our Company in 2013, he was the general manager of our predecessor and continued to serve as chief executive officer post incorporation of our Company.

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

During the period from February 2000 to June 2013 and with effect from June 21, 2019, Mr. Lu has been a director of Hon Hai, listed on the Taiwan Stock Exchange (stock code: 2317). Mr. Lu Sung-Ching is the brother of Mr. Lu Pochin Christopher, our executive Director.

Mr. LU Pochin Christopher (盧伯卿), aged 61, was appointed as our executive Director on March 16, 2015. He is also the global chief operating officer and chief financial officer of our Company. Mr. Lu is responsible for providing strategic advice and guidance on the business development of the Group. Mr. Lu joined the Los Angeles office of Deloitte Haskins & Sells (now Deloitte Touche Tohmatsu) as an audit associate in 1981. During his 34 years of service with Deloitte Touche Tohmatsu, he held multiple executive positions, including Deloitte China CEO from 2008 to 2013, and member of the Deloitte Touche Tohmatsu Limited Global Executive Committee from 2012 to 2013. He has also led a number of Deloitte Touche Tohmatsu initiatives in support of national policies and programs such as those of the Ministry of Finance and the State-owned Assets Supervision & Administration Commission. He retired from Deloitte China in December 2014.

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

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

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

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

Mr. PIPKIN Chester John, aged 59, was appointed as our executive Director with effect from April 1, 2019. He is currently the chief executive officer of FIT CHB Holdco, Inc. and Belkin, subsidiaries of the Company, in charge of the Group's smart home and smart accessories businesses. Mr. Pipkin founded Belkin in 1983 and has been responsible for the strategy and operations of Belkin since then.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CURWEN Peter D, aged 62, was appointed as our independent non-executive Director on November 4, 2016. He is primarily responsible for providing strategic advice and making recommendations on the operations and management of our Company. Mr. Curwen has over 30 years of experience in the connector industry. Prior to joining the Group, Mr. Curwen worked at Amphenol FCI (previously known as E.I. du Pont de Nemours and Company, Berg Electronics Group Inc. and FCI), a company engaged in the connector and cable assembly solutions business, since May 1981, and he served as a vice president and general manager of various business divisions of FCI from 2007 to 2011, and the president of the electronics division from August 2011 to September 2012. From 2012 to 2013, he was a strategy adviser of FCI Holding S.A.S., a company engaged in the electronic connectors and cable assemblies business. In addition, Mr. Curwen was appointed as the President of Conesys, a company engaged in the industrial electronic connectors business, in February 2013.

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

Mr. TANG Kwai Chang (鄧貴彰), aged 67, was appointed as our independent non-executive Director on November 4, 2016. He is primarily responsible for supervising and providing independent judgment for the Board. Mr. Tang is a fellow member of both the Chartered Association of Accountants (admitted on November 8, 1984) and the Hong Kong Institute of Certified Public Accountants (certified on February 23, 1988). Mr. Tang has also been a member of the disciplinary panel of the Hong Kong Institute of Certified Public Accountants since August 2008 and is a convenor of Financial Reporting Review Panel of the Hong Kong's Financial Reporting Council.

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

Mr. Tang obtained his diploma in accounting from Hong Kong Baptist College (currently known as Hong Kong Baptist University) in June 1976. He was an honorary member of the Court of HKBU from January 2007 to December 2011, and has been a member of the Court of HKBU since November 2011. He was conferred with the Honorary University Fellowship by HKBU in 2017.

Since September 24, 2014, Mr. Tang has been an independent non-executive director and the chairman of audit committee of HKR International Limited (香港興業國際集團有限公司), a company listed on the Stock Exchange (stock code: 480). In addition, since April 1, 2017, Mr. Tang has been an independent non-executive director of Bank of Communications (Hong Kong) Limited (交通銀行（香港）有限公司), a company involved in the financial services industry. Furthermore, Mr. Tang is also currently a director for the following two subsidiaries under China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司), a company involved in the steel manufacturing industry: Baosteel Resources Co., Ltd (as of July 21, 2016) and Baosteel Resources International Company Limited (as of August 16, 2016). In addition, since December 15, 2017, Mr. Tang has been an independent non-executive director and also a chairman of the audit committee of Tsit Wing International Holdings Limited (捷榮國際控股有限公司), a company listed on the Stock Exchange (stock code: 2119) and a leading provider of integrated B2B coffee and black tea solutions.

Mr. CHAN Wing Yuen Hubert (陳永源), aged 62, was appointed as our independent non-executive Director on November 4, 2016. As of the Latest Practicable Date, he is engaged with the following listed companies in Hong Kong:

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

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

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

Mr. TRAINOR-DEGIROLAMO Sheldon, aged 56, was appointed as our independent non-executive Director on May 10, 2019 and serve as a member of the remuneration committee. Mr. Trainor-DeGirolamo is currently the Managing Partner of PacBridge Capital Partners (HK) Limited ("PacBridge"), a principal investment firm which he founded in 2009. PacBridge specializes in providing early stage and growth capital to companies seeking to develop disruptive technologies and build scalable businesses, and has advised on more than US$4.0 billion of completed transactions and made numerous investments in companies around the world since its formation.

Prior to establishing PacBridge, Mr. Trainor-DeGirolamo spent around 20 years in investment banking with firms including: Credit Suisse Australia between 1990 and 1994 where he last served as an Associate in the Investment Banking Division; Morgan Stanley Asia between 1994 and 2005 where he last served as a Managing Director and Head of the General Industries Group; and Merrill Lynch between 2005 and 2009 where he was the Head of Investment Banking for Asia and last served as Vice Chairman of Merrill Lynch Asia. During his investment banking career, Mr. Trainor-DeGirolamo developed extensive experience and expertise across many sectors, in particular utilities, industrials, infrastructure and natural resources, providing financial and strategic advice to public and private sector companies, public organizations and government bodies in Asia and around the world.

Since May 2012, Mr. Trainor-DeGirolamo has been an Executive Director of Macau Legend Development Limited (澳門勵駿創建有限公司), a company listed on the Stock Exchange (Stock Code: 1680) and one of the leading owners of entertainment and casino gaming facilities in Macau with projects in Laos and Cape Verde. He was a director and chairman of the compensation committee of Athenex, Inc., a biopharmaceutical company which is listed on the NASDAQ Global Select Market (Ticker Symbol: ATNX), between June 2017 and March 2019. Mr. Trainor-DeGirolamo was licensed by the Securities and Futures Commission since 1994 as an investment representative before the SFO came into effect and as a responsible officer and representative under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities.

Mr. Trainor-DeGirolamo obtained a Bachelor of Commerce degree from the University of British Columbia in 1988. He currently serves on the Advisory Board of the Sauder School of Business at the University of British Columbia.

SENIOR MANAGEMENT

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

Mr. TSAI Yen-Chao, aged 55, joined the Group in July 2014 and was appointed as the Vice President on March 1, 2018. He is primarily responsible for the cable products business of the Group. He currently holds various positions in the subsidiaries of the Group, including director of Huaian Fulitong Trading Co., Ltd. and Huaian Hong Yu Electronics Technology Co., Ltd..

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

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

Mr. LIN Nan-Hung, aged 50, joined the Group on October 1, 2013 and was appointed as the Vice President on January 1, 2020. He is primarily responsible for the connector business of the Group. He currently holds various positions in the subsidiaries of the Group, including the legal representative and director of Fu Ding Precision Component (Shenzhen) Co., Ltd..

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

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

Mr. LEE Bing-Yen, aged 49, joined the Group on April 5, 2017 and was appointed as the Vice President on the same date. He is primarily responsible for the automotive electronics business of the Group. He currently holds various positions in subsidiaries of the Group, including director of FIT Electronics Device Pte. Ltd., SHARP FIT Automotive Technology (Wuxi) Co, Ltd. and SHARP FIT Automotive Technology Co. Ltd..

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

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

Directors' Report

The Board is pleased to announce the Annual Report and the audited consolidated financial statements of the Group for the year ended December 31, 2019 (the "Reporting Period").

GLOBAL OFFERING

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

PRINCIPAL BUSINESS

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

RESULTS

The results of the Group for the year ended December 31, 2019 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 74 to 75 of this Annual Report.

FINAL DIVIDEND

The Board resolved to postpone the consideration of the recommendation on payment of a final dividend for the year ended December 31, 2019, if any, to a Board meeting to be held by the end of May 2020. Relevant information will be further announced by the Company in due course.

BUSINESS REVIEW

A review of the business of the Group and a discussion and analysis of the Group's performance during the year and an indication of likely future developments in the Group's business are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 5 to 6 and pages 7 to 18 of this Annual Report respectively. Further discussion on the environmental policies and performance together with the compliance with the relevant laws and regulations by the Group, and the discussion on the relationship with the employees, customers and suppliers, are set out in the Company's "2019 Environmental and Social Responsibility Report" published on the Stock Exchange's website at http://www.hkexnews.hk. Description of the risks and uncertainties facing the Group can be found throughout the Annual Report. These discussions form part of this Directors' Report.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 4 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

As of the year ended December 31, 2019, sales to our top five customers accounted for 66.1% of the Group's total revenues (2018: 65.9%) while sales to our single largest customer accounted for 33.0% of the Group's total revenues (2018: 27.2%).

Major Suppliers

As of the year ended December 31, 2019, purchases from our top five suppliers accounted for 39.5% of the Group's total purchases (2018: 39.4%) while purchases from our single largest supplier accounted for 17.1% of the Group's total purchases (2018: 15.3%).

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in note 27 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Reporting Period are set out on pages 78 to 79 of the consolidated statements of changes in equity.

RESERVES AVAILABLE FOR DISTRIBUTION

As of December 31, 2019, the Company's reserves available for distribution amounted to approximately US$1,951 million (December 31, 2018: approximately US$1,746 million).

BANK BORROWINGS

Particulars of bank borrowings of the Company and the Group as of December 31, 2019 are set out in note 29 to the consolidated financial statements.

DIRECTORS

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

Executive Directors:

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

Non-executive Director:

Dr. CHEN Ga-Lane (陳杰良) *(resigned with effect from May 10, 2019)*

Independent Non-executive Directors:

Mr. CURWEN Peter D
Mr. TANG Kwai Chang (鄧貴彰)
Mr. CHAN Wing Yuen Hubert (陳永源)
Mr. TRAINOR-DEGIROLAMO Sheldon *(appointed with effect from May 10, 2019)*

In accordance with article 84 of the Articles of Association, Mr. LU Sung-Ching, Mr. LU Pochin Christopher and Mr. CHAN Wing Yuen Hubert shall retire by rotation, and being eligible, offer themselves for re-election at the AGM.

The particulars of Directors who are subject to re-election at the AGM are set out in the circular to Shareholders to be despatched on or around April 29, 2020.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 19 to 24 of this Annual Report.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of Mr. LU Sung-Ching (盧松青), Mr. LU Pochin Christopher (盧伯卿) and Mr. PIPKIN Chester John, the executive Directors, has entered into a service contract with the Company on June 20, 2017, June 20, 2017 and March 29, 2019, respectively, with an initial fixed term of three years. Such contracts shall be subject to termination in accordance with their respective terms and may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

Each of Mr. CURWEN Peter D, Mr. TANG Kwai Chang (鄧貴彰) and Mr. CHAN Wing Yuen Hubert (陳永源), independent non-executive Directors, has accepted and signed a letter of continuation of appointment issued by the Company on November 19, 2019, respectively, with a fixed term of three years commencing from November 4, 2019. Such letters of continuation of appointment shall be subject to termination in accordance with their respective terms.

Mr. TRAINOR-DEGIROLAMO Sheldon, an independent non-executive Director, has signed a letter of appointment with the Company on May 10, 2019 with an initial fixed term of three years. Such letter of appointment shall be subject to termination in accordance with its terms.

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

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

EMOLUMENT POLICY

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

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

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

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

CHANGES OF INFORMATION IN RELATION TO THE DIRECTORS

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

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

As of December 31, 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) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under the provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Long positions in the Shares

Name of Director	Capacity and nature of interest	Number of Shares held	Approximate percentage of shareholding
LU Sung-Ching (盧松青)[1]	Beneficial owner	229,220,000	3.33%
LU Pochin Christopher (盧伯卿)[2]	Beneficial owner	17,012,000	0.25%
PIPKIN Chester John[3]	Beneficial owner	1,790,000	0.03%

Note:

1. Mr. LU Sung-Ching is also interested in 221,440,000 Shares under Share Grant Scheme.
2. Mr. LU Pochin Christopher is also interested in 13,500,000 Shares under the Second Restricted Share Award Scheme.
3. Mr. Pipkin 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 associated corporation	Approximate percentage of shareholding in the associated corporation
PIPKIN Chester John	FIT CHB Holdco, Inc.	Beneficial owner	450,000	9.57%

(iii) Long position in share options granted by the Company

As of December 31, 2019, the long position of the Directors in the share options granted by the Company under the Share Option Scheme was as follows:

Name of Director	As of January 1, 2019	Granted during the year 2019 and up to December 31, 2019	Exercised during the year 2019 and up to December 31, 2019	Lapsed during the year 2019 and up to December 31, 2019	Cancelled during the year 2019 and up to December 31, 2019	As of December 31, 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$
PIPKIN Chester John	200,000	—	—	—	—	200,000	December 28, 2018	December 28, 2019 to December 28, 2022	3.380	3.422

Save as disclosed above, as of December 31, 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) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were entered in the register required to be kept pursuant to Section 352 of the SFO referred to therein or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As of December 31, 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 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 Shares

Name of Shareholder	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
Hon Hai Precision Industry Co., Ltd. ("Hon Hai")	Interest in controlled corporation[1]	5,179,557,888	75.27%
Foxconn (Far East) Limited ("Foxconn Far East Cayman")*	Interest in controlled corporation[2]	5,179,557,888	75.27%
Foxconn (Far East) Limited ("Foxconn Far East Hong Kong")**	Beneficial owner	5,179,557,888	75.27%

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

** Foxconn Far East Hong Kong is a limited liability company incorporated in Hong Kong on December 29, 1988.

Notes:

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

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

Save as disclosed above, as of December 31, 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" of the Prospectus for further details of the Share Grant Scheme.

As of the Latest Practicable Date, details of the interests of the Director 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	221,440,000

SHARE OPTION SCHEME

The Share Option Scheme was 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 a general meeting to refresh the Option Limit; and

(ii) the Company may seek separate Shareholders' approval in a 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 unless approval of the Shareholders has been obtained in accordance with the Listing Rules.

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

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

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

Name or category of participant	Number of share options: As of January 1, 2019	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As of December 31, 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 share 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	1,357,400	—	20,484,800	May 25, 2018	June 11, 2018 to June 10, 2021	3.800	3.690	4.195
	9,800,000	—	—	1,390,000	—	8,410,000	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 to December 28, 2024; 33 1/3%: December 28, 2020 to December 28, 2024; 33 1/3%: December 28, 2021 to December 28, 2024	3.380	3.422	-
	31,580,000	—	—	7,720,000	—	23,860,000	December 28, 2018	25%: December 28, 2019 to December 28, 2025; 25%: December 28, 2020 to December 28, 2025; 25%: December 28, 2021 to December 28, 2025; 25%: December 28, 2022 to December 28, 2025	3.380	3.422	-
	64,226,200	—	621,000	10,467,400	—	53,137,800[1]					

Note:

1. The total number of Shares available for issue under the Share Option Scheme is 53,137,800 Shares, representing approximately 0.77% of the issued Shares as of the Latest Practicable Date.

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

RESTRICTED SHARE AWARD SCHEMES

First Restricted Share Award Scheme

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

As of December 31, 2019, the trustee of the First Restricted Share Award Scheme had purchased 213,642,000 Shares on the Stock Exchange for a total consideration of HK$736,383,975.72 and 5,091,000 Shares had been granted to the selected participants.

Second Restricted Share Award Scheme

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 December 31, 2019, the trustee of the Second Restricted Share Award Scheme had purchased 12,483,000 Shares on the Stock Exchange for a total consideration of HK$40,395,824.00 and 10,830,000 Shares had been granted to the selected participants.

As of the Latest Practicable Date, details of the interests of the Directors in the Second Restricted Share Award Scheme are set out below:

Name of Director	Date of grant	Number of Shares granted	Vesting schedule
LU Sung-Ching (盧松青)	December 12, 2019	5,500,000	All vested
LU Pochin Christopher (盧伯卿)	December 12, 2019	18,000,000	25%: vested 25%: to vest on December 12, 2020 25%: to vest on December 12, 2021 25%: to vest on December 12, 2022

EQUITY-LINKED AGREEMENT

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

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES

Save as disclosed under the section headed "Restricted Share Award Schemes", during the Reporting Period none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

NON-COMPETITION UNDERTAKING

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

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this Annual Report, none of the Directors or their associates had any interest in any business which directly or indirectly compete or may compete with the businesses of our Group during the Reporting Period.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

The following entities are our connected persons:

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

CONNECTED TRANSACTIONS

On 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 at a consideration of JPY300 million (approximately US$2.7 million). The Company is indirectly owned as to approximately 75.27% by Hon Hai, the controlling shareholder of the Company, which controls more than 30% interest in Sharp Corporation, a substantial shareholder of Kantatsu. Therefore, Sharp Corporation is deemed as an associate of Hon Hai, rendering the acquisition a connected transaction of the Company. 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 ("New Wing (Bac Giang)") entered into a zone A land lease agreement with Fugiang Co., Ltd ("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 73,682.30 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). New Wing (Bac Giang) is a wholly-owned subsidiary of the Company. Since Fugiang is a 95.05% owned subsidiary of Hon Hai, Fugiang is a connected person of the Company by virtue of it being an associate of Hon Hai. 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). New Wing (Bac Giang) is a wholly-owned subsidiary of the Company. Since Fugiang is a 95.05% owned subsidiary of Hon Hai, Fugiang is a connected person of the Company by virtue of it being an associate of Hon Hai. For further details, please refer to the Company's announcement dated March 21, 2019.

On October 17, 2019, Foxconn Interconnect Technology Singapore Pte. Ltd. entered into a share purchase agreement with Sharp Corporation, pursuant to which the former agreed to acquire and the latter agreed to sell certain preferred shares of Kantatsu, representing approximately 26.83% of the entire equity interest in Kantatsu on a fully converted basis, at a total consideration of JPY5,904,993,000 (approximately US$54,226,000). Foxconn Interconnect Technology Singapore Pte. Ltd. is a wholly-owned subsidiary of the Company. The Company is indirectly owned as to approximately 75.27% by Hon Hai, the controlling shareholder of the Company, which controls more than 30% interest in Sharp Corporation. Therefore, Sharp Corporation is deemed as an associate of Hon Hai and a connected person of the Company. For further details, please refer to the Company's announcements dated October 17, 2019 and October 29, 2019.

Non-Exempt Continuing Connected Transactions with Hon Hai Group

We set forth below (a) the procurement transactions of molding parts between our Group as the purchaser and Hon Hai Group as the supplier; (b) the general services and costs sharing with Hon Hai Group; (c) the equipment sales transactions between our Group as the supplier and Hon Hai Group as the purchaser; (d) the equipment procurement transactions between our Group as the purchaser and Hon Hai Group as the supplier; (e) the property leasing transactions between the relevant members of our Group, as the lessee, and Hon Hai Group, as the lessor; (f) the logistics transactions between our Group as the purchaser and Hon Hai Group as the service provider; (g) the pensions payment transactions between our Group as the service provider and Hon Hai Group as the customer; (h) the OEM new equipment sales transactions between our Group as the supplier and Hon Hai Group as the purchaser; (i) the rental income transactions between our Group, as the lessor, and Hon Hai Group, as the lessee; (j) the technology licensing transactions between FIT Electronics Device Pte. Ltd., as the licensee, and Sharp Corporation, as the licensor; and (k) the trademark licensing transactions between FIT Electronics Device Pte. Ltd., as the licensee, and Sharp Corporation, as the licensor. As the applicable "percentage ratios" (other than the profits ratio) for the transactions under each of the above categories are more than 0.1% but below 5%, the transactions contemplated therein are exempted from the circular (including independent financial advice) and independent shareholders' approval requirements, but subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

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

(a) Framework Molding Parts Agreement

Our Group entered into a framework molding parts agreement with Hon Hai, pursuant to which we procure certain molding parts from Hon Hai Group. The term of the molding parts agreement is three years commencing on the Listing Date. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework molding parts agreement for a term from January 1, 2020 to December 31, 2022.

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

For the year ended December 31, 2019, the annual cap of the maximum aggregate annual amount payable to Hon Hai Group was set at US$106 million and the actual aggregate amount was approximately US$68.4 million.

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

Our Group entered into a framework general services and costs sharing agreement with Hon Hai, pursuant to which our Group will share the costs of certain services and office spaces of subsidiaries of Hon Hai Group including telecommunication, general administrative and IT system support, utility, logistics and other services. The term of the agreement is three years commencing on the Listing Date and subject to the terms and conditions therein at sharing services expenses determined based on various factors including usage or costs allocation in proportion of headcount, procurement volume and floor area, as the case may be. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework general services and costs sharing (expense) agreement for a term from January 1, 2020 to December 31, 2022.

For the year ended December 31, 2019, the annual cap of the maximum aggregate annual fee payable to Hon Hai Group was set at US$7.9 million and the actual aggregate amount was approximately US$4.1 million.

(c) Framework Equipment Sales Agreement

Our Group entered into a framework equipment sales agreement with Hon Hai for a term from January 1, 2019 to December 31, 2019, pursuant to which we sell to Hon Hai Group equipment and facilities primarily used in connection with the production activities of Hon Hai Group. Such equipment and facilities may include molding machines, stamping machines and computer hardware. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework equipment sales agreement for a term from January 1, 2020 to December 31, 2022.

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

For the year ended December 31, 2019, the annual cap of the aggregate annual sales amount payment to Hon Hai Group was set at US$17 million and the actual aggregate amount was approximately US$0.7 million.

(d) Framework Equipment Purchase Agreement

Our Group entered into a framework equipment purchase agreement with Hon Hai for a term from January 1, 2019 to December 31, 2019, pursuant to which we purchase from Hon Hai Group equipment and facilities primarily used in the Group's production activities in connection with serving the mobile and wireless devices, communications infrastructure, computer and consumer electronics end markets. Such equipment and facilities may include air-conditioning systems, automatic assembly equipment, stamping machines, computer software and molding machines. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework equipment purchase agreement for a term from January 1, 2020 to December 31, 2022.

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

For the year ended December 31, 2019, the annual cap of the aggregate annual procurement amount from Hon Hai Group was set at US$19.1 million and the actual aggregate amount was approximately US$3.9 million. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework equipment purchase agreement for a term from January 1, 2020 to December 31, 2022.

(e) Framework Property Leasing Agreement

Our Group entered into a framework property leasing agreement with Hon Hai, pursuant to which we may lease the properties of Hon Hai or its subsidiaries for manufacturing facilities and office purpose. The framework property leasing agreement is effective during the period of January 1, 2017 to December 31, 2019. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework property leasing agreement for a term from January 1, 2020 to December 31, 2022.

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

For the year ended December 31, 2019, the annual cap of the aggregate annual rental payment to Hon Hai Group was set at US$6.8 million and the actual aggregate amount was approximately US$4.7 million.

(f) Framework Logistics Agreement

Our Group entered into a framework logistics agreement with Hon Hai, pursuant to which we may purchase certain transportation, logistics, warehousing and customs clearance services from the Hon Hai Group. The framework logistics agreement was effective during the period of January 1, 2019 to December 31, 2019. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework logistics agreement for a term from January 1, 2020 to December 31, 2022.

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

For the year ended December 31, 2019, the annual cap of the aggregate annual logistics services payment to the Hon Hai Group was set at US$10.3 million and the actual aggregate amount was approximately US$9.1 million.

(g) Framework Pensions Payment Agreement

Our Group entered into a framework pensions payment agreement with Hon Hai for a term from January 1, 2019 to December 31, 2019, pursuant to which we agree to make pensions payment on behalf of Hon Hai to certain of our Group's employees who were formerly employed by the Hon Hai Group in respect of the portion of pensions payment attributable to the relevant employee's employment with the Hon Hai Group, and the Hon Hai Group agrees to repay the advance pensions payment made by the Group on its behalf. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework pensions payment agreement for a term from January 1, 2020 to December 31, 2022.

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

For the year ended December 31, 2019, the annual cap of the aggregate annual pensions payment to the Hon Hai Group was set at US$4.1 million and the actual aggregate amount was approximately US$0.8 million.

(h) Framework OEM New Equipment Sales Agreement

Our Group entered into a framework OEM new equipment sales agreement with Hon Hai for a term from January 1, 2018 to December 31, 2019, pursuant to which we may sell certain equipment and facilities including newly assembled industrial testing equipment relating to automation and artificial intelligence which would be primarily used in the Hon Hai Group's business and production activities. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework OEM new equipment sales agreement for a term from January 1, 2020 to December 31, 2022.

As to the pricing policy, the consideration for the equipment and facilities under the framework OEM new equipment sales agreement shall be determined with reference to the costs of production and assembly, plus a profit margin of not less than 1%; and if inappropriate or inapplicable, with reference to the market price (which is the price required by independent third parties selling the same or similar equipment or facilities).

For the year ended December 31, 2019, the annual cap of the aggregate annual sales amount to the Hon Hai Group was set at US$130 million and the actual aggregate amount was US$Nil.

(i) Framework Rental Income Agreement

Our Group entered into a framework rental income agreement with Hon Hai for a term from January 1, 2018 to December 31, 2019, pursuant to which the Hon Hai Group may lease properties of the Group, including but not limited to manufacturing facilities and dormitories. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework rental income agreement for a term from January 1, 2020 to December 31, 2022.

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

For the year ended December 31, 2019, the annual cap of the aggregate annual rental payment from the Hon Hai Group was set at US$7.9 million and the actual aggregate amount was approximately US$2.4 million.

(j) Technology License Agreement

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

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

For the year ended December 31, 2019, the annual cap of the aggregate license fees payment to Sharp Corporation was set at JPY1,541,000,000 (approximately US$14.0 million) and the actual aggregate amount was US$Nil.

(k) Trademark License Agreement

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

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

For the year ended December 31, 2019, the annual cap of the aggregate license fees payment to Sharp Corporation was set at JPY55,000,000 (approximately US$0.5 million) and the actual aggregate amount was US$Nil.

We set forth below (l) the sales transactions between our Group as the supplier and the Hon Hai Group as the purchaser; (m) the procurement transactions between our Group as the purchaser and the Hon Hai Group as the supplier; and (n) the sub-contracting transactions between our Group as the customer and the Hon Hai Group as the sub-contractor. As one or more of the applicable percentage ratios in relation to the transactions under each of the above categories are more than 5%, such transactions are subject to the annual reporting, annual review, announcement, circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(l) Framework Sales Agreement

Our Group entered into a framework sales agreement with Hon Hai, pursuant to which the Hon Hai Group purchases various interconnect solutions and other related products from us. Such transactions mainly represent sales to the Hon Hai Group as contract manufacturers, of which more than 50% are designated by the top five brand companies who are the primary decision makers when such sales are made. The term of the framework sales agreement is three years commencing on the Listing Date. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework sales agreement for a term from January 1, 2020 to December 31, 2022.

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

For the year ended December 31, 2019, the annual cap of the aggregate annual sales amount to the Hon Hai Group was set at US$1,465 million and the actual aggregate amount was approximately US$704.1 million.

(m) Framework Purchase Agreement

Our Group entered into a framework purchase agreement with Hon Hai, pursuant to which we purchase from the Hon Hai Group various raw materials, ancillary materials and semi-finished components and assembled products under the following three procurement models: (1) purchase of gold salts from the Hon Hai Group as our raw materials ("Model One"); (2) purchase of ancillary materials from Hon Hai Group ("Model Two"); and (3) purchase of semi-finished components and assembled products from the Hon Hai Group to whom we provide certain raw materials and components for their production of semi-finished components and assembled products ("Model Three"). The term of the framework purchase agreement is three years commencing on the Listing Date. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework purchase agreement for a term from January 1, 2020 to December 31, 2022.

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

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

Model Three's pricing policy: for the procurement of semi-finished goods and assembled products, at the purchase price determined based on (a) the Hon Hai Group's purchase prices of raw materials supplied by us, (b) the Hon Hai Group's purchase prices of other raw materials, (c) the Hon Hai Group's labor costs and overheads, and (d) handling fees up to 8% of relevant material cost, labor cost and overheads; or determined with reference to comparable third party prices to the extent independent third party suppliers are available.

For the year ended December 31, 2019, the annual cap of the aggregate annual procurement amount payment to the Hon Hai Group was set at US$680 million and the actual aggregate amount was approximately US$471.8 million.

(n) Framework Sub-contracting Services Agreement

Our Group entered into a framework sub-contracting services agreement with Hon Hai, pursuant to which the Hon Hai Group provides us with subcontracting services from time to time. The term of the framework sub-contracting services agreement is three years commencing on the Listing Date. On November 25, 2019, the Company and Hon Hai agreed upon the terms of a framework sub-contracting services agreement for a term from January 1, 2020 to December 31, 2022.

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

For the year ended December 31, 2019, the annual cap of the aggregate annual sub-contracting services fee payment to the Hon Hai Group was set at US$240 million and the actual aggregate amount was approximately US$89.9 million.

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

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 38 to 47 of this Annual Report in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Other related party transactions entered into by the Group during the year ended December 31, 2019 as set out in note 35 to the consolidated financial statements do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

CHARITABLE DONATIONS

During the Reporting Period, the Group has not made any charitable donations.

MATERIAL LEGAL PROCEEDINGS

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

PERMITTED INDEMNITY PROVISIONS

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

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

EVENTS AFTER THE BALANCE SHEET DATE

Details of significant events occurring after the balance sheet date are set out in Note 37 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Company as well as the audited consolidated financial statements for the year ended December 31, 2019.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high level of corporate governance practices. Information about the corporate governance practices adopted by the Company is set out in the corporate governance report on pages 49 to 67 in this Annual Report.

PUBLIC FLOAT

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

AUDITOR

PricewaterhouseCoopers was appointed as the auditor of the Company for the year ended December 31, 2019.

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

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

Hong Kong, March 25, 2020

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2019.

CORPORATE GOVERNANCE PRACTICES

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

BOARD OF DIRECTORS

Responsibilities

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

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

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

Composition of the Board of Directors

As of the Latest Practicable Date, the Board of Directors comprises three executive Directors and four independent non-executive Directors, as follows:

Executive Directors:

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

Non-executive Director:
CHEN Ga-Lane (陳杰良) *(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)*

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

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

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

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

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

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

Appointment and Continuous Professional Development

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

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

Based on the information provided by the Directors, a summary of the trainings received by the Directors for the year ended December 31, 2019 is set out below:

Name of Director	Nature of trainings
Mr. LU Sung-Ching (盧松青)	A, B
Mr. LU Pochin Christopher (盧伯卿)	A, B
Mr. GILLESPIE William Ralph *(resigned with effect from April 1, 2019)*	A, B
Mr. PIPKIN Chester John *(appointed with effect from April 1, 2019)*	A, B
Dr. CHEN Ga-Lane (陳杰良) *(resigned with effect from May 10, 2019)*	A, B
Mr. CURWEN Peter D	A, B
Mr. TANG Kwai Chang (鄧貴彰)	A, B
Mr. CHAN Wing Yuen Hubert (陳永源)	A, B
Mr. TRAINOR-DEGIROLAMO Sheldon *(appointed with effect from May 10, 2019)*	A, B

Notes:

A: Participate in trainings, including but not limited to briefings, seminars, forums and workshops

B: Read relevant news alerts, newspapers, journals, magazines and relevant publications

Chairman and Chief Executive Officer

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

Mr. LU Sung-Ching (盧松青), the chairman and chief executive officer of the Company, is responsible for overall management of the Group and directing the strategic development and business plan of the Group. In view of the current stage of the Group's development, the Board considers that vesting the two roles of chairman and chief executive officer can provide the Company with a strong and consistent leadership and be conducive to the implementation and execution of the Group's business strategy. Nevertheless, we will review the structure from time to time in light of the prevailing circumstances. The Board will continue to evaluate the situation and consider the separation of the roles of chairman and chief executive officer when appropriate, taking into account the general conditions of the Group then.

Appointment and Re-election of the Directors

Each of Mr. LU Sung-Ching (盧松青), Mr. LU Pochin Christopher (盧伯卿) and Mr. PIPKIN Chester John, the executive Directors, has entered into a service contract with the Company on June 20, 2017, June 20, 2017 and March 29, 2019, respectively, with an initial fixed term of three years. Such contracts shall be subject to termination in accordance with their respective terms and may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

Each of Mr. CURWEN Peter D, Mr. TANG Kwai Chang (鄧貴彰) and Mr. CHAN Wing Yuen Hubert (陳永源), the independent non-executive Directors, has accepted and signed a letter of continuation of appointment issued by the Company on November 19, 2019, respectively, with a fixed term of three years commencing from November 4, 2019. Such letters of continuation of appointment shall be subject to termination in accordance with their respective terms.

Mr. TRAINOR-DEGIROLAMO Sheldon, the independent non-executive Director, has signed a letter of appointment with the Company on May 10, 2019 with an initial fixed term of three years. Such letter of appointment shall be subject to termination in accordance with its terms.

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

The Directors are subject to retirement by rotation and re-election at each annual general meeting of the Company in accordance with article 84 of the Company's articles of association. Directors appointed as an addition to the Board or to fill a casual vacancy on the Board will be subject to re-election by the Shareholders at the next following annual general meeting or the next following general meeting of the Company respectively after the appointment. Also, when an independent non-executive Director proposed for re-election has served the Company for more than nine years, his or her re-election will be subject to a separate resolution to be approved at the AGM.

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

Board Meetings

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

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

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

During the Reporting Period, the Board held 7 Board meetings and 3 general meetings. Details of the Directors' attendance in Board meetings and general meetings are set out in the following table:

Directors	Board meetings attended/held	General meetings attended/held
Mr. LU Sung-Ching (盧松青)	5/7	2/3
Mr. LU Pochin Christopher (盧伯卿)	6/7	3/3
Mr. GILLESPIE William Ralph *(resigned with effect from April 1, 2019)*[1]	2/2	–
Mr. PIPKIN Chester John *(appointed with effect from April 1, 2019)*[1]	4/5	1/3
Dr. CHEN Ga-Lane (陳杰良) *(resigned with effect from May 10, 2019)*[2]	1/3	–
Mr. CURWEN Peter D	7/7	1/3
Mr. TANG Kwai Chang (鄧貴彰)	7/7	3/3
Mr. CHAN Wing Yuen Hubert (陳永源)	7/7	3/3
Mr. TRAINOR-DEGIROLAMO Sheldon *(appointed with effect from May 10, 2019)*[2]	4/4	3/3

Notes:

1. With effect from April 1, 2019, (i) Mr. Gillespie resigned from his position as an executive Director and (ii) Mr. Pipkin was appointed as an executive Director. 5 out of 7 Board meetings and the 3 general meetings were held after the above changes of Board members.

2. With effect from May 10, 2019, (i) Dr. Chen resigned from his position as a non-executive Director and a member of the Remuneration Committee and (ii) Mr. Trainor-DeGirolamo was appointed as an independent non-executive Director and a member of the Remuneration Committee. 4 out of 7 Board meetings and the 3 general meetings were held after the above changes of Board members.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD AUTHORIZATION

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

BOARD COMMITTEES

Audit Committee

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

The main duties of the Audit Committee are as follows:

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

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

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

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

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

   (i) any changes in accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit;

   (iv) the going concern assumptions and any qualifications;

   (v) compliance with accounting standards; and

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

6. regarding (5) above:–

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the Reporting Period, the Audit Committee held 4 meetings to discuss and consider the following:

- Review of the annual results of the Company and its subsidiaries and the environmental, social and governance report for the year ended December 31, 2018;

- Review of the Company's certain financial information for the three months ended March 31, 2019 and for the nine months ended September 30, 2019;

- Review of the interim results of the Company and its subsidiaries for the six months ended June 30, 2019; and

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

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

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

Nomination Committee

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

The main duties of the Nomination Committee of the Company are as follows:

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

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

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

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

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

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

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

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

During the Reporting Period, the Nomination Committee held 3 meetings to discuss and consider the following:

- Review of the structure, size and composition of the Board;

- Review of the independence of the independent non-executive Directors;

- Consideration of the director nomination policy of the Company;

- Review of the board diversity policy of the Company;
- Consideration of the change of Directors and the change of composition of the Remuneration Committee and the Nomination Committee;
- Consideration of the re-election of the retiring Directors.

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

Name	Nomination Committee meetings attended/held
Mr. LU Sung-Ching (盧松青)	1/3
Mr. CHAN Wing Yuen Hubert (陳永源)	3/3
Mr. CURWEN Peter D	3/3

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

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

As regards selection and appointment of a new Director:

- The Nomination Committee and/or the Board should, upon receipt of a proposal on the appointment of a new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

- If the process yields more than one desirable candidate, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and the reference check of each candidate (where applicable).

- The Nomination Committee should then recommend the Board to appoint the most appropriate candidate for directorship, as applicable.

- For any person that is nominated by a Shareholder for election as a Director at a general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

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

As regards re-election of Directors at general meeting:

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

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

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

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

Board Diversity Policy

The Company believes that board diversity will have a substantial benefit in improving its performance. Therefore, the Company has adopted a board diversity policy to ensure that the diversity of Board members be considered from a number of perspectives. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. A summary of the board diversity policy is set out below:

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance and recognizes diversity at the Board level as an essential element in maintaining competitive advantage and sustainable development.

In designing the Board's composition, Board diversity is considered from a number of perspectives, including but not limited to gender, age, ethnicity, cultural and educational background, regional and industry experience, technical and professional skills and/or qualifications, knowledge, length of service and time to be devoted as a Director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies in order for the Board to be effective. The Board will take the opportunity to achieve Board diversity when selecting and making recommendation on suitable candidates for Board appointments.

Remuneration Committee

The Remuneration Committee is composed of three members, namely three independent non-executive Directors, Mr. CHAN Wing Yuen Hubert (陳永源) (Chairman), Mr. TANG Kwai Chang (鄧貴彰) and Mr. TRAINOR-DEGIROLAMO Sheldon.

The main duties of the Remuneration Committee of the Company are as follows:

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

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

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

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

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

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

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

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

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

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

During the Reporting Period, the Remuneration Committee held 2 meetings to discuss and consider the following:

- Assessment of the performance of the Directors and senior management;

- Review of the remuneration of the Directors;

- Review of the remuneration package of the proposed Directors and making recommendations to the Board; and

- Review of the remuneration policy and structure and making recommendations to the Board.

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

Name	Remuneration Committee meetings attended/held
Mr. CURWEN Peter D *(resigned as the Chairman and a member of the Remuneration Committee with effect from May 10, 2019)*[1]	2/2
Dr. CHEN Ga-Lane (陳杰良) *(resigned with effect from May 10, 2019)*[1]	0/2
Mr. CHAN Wing Yuen Hubert (陳永源) *(appointed as the Chairman and a member of the Remuneration Committee with effect from May 10, 2019)*[1]	–
Mr. TANG Kwai Chang (鄧貴彰)	2/2
Mr. TRAINOR-DEGIROLAMO Sheldon *(appointed with effect from May 10, 2019)*[1]	–

Note:

1. With effect from May 10, 2019, (i) Dr. Chen Ga-Lane resigned from his position as a non-executive Director and a member of the Remuneration Committee; (ii) Mr. Trainor-DeGirolamo was appointed as an independent non-executive Director and a member of the Remuneration Committee; (iii) Mr. Curwen resigned from his position as the chairman and a member of the Remuneration Committee; and (iv) Mr. Chan Wing Yuen Hubert was appointed as the chairman and a member of the Remuneration Committee. The 2 Remuneration Committee meetings were held before the above changes of the Remuneration Committee members.

Senior Management's Remuneration

For the year ended December 31, 2019, the remuneration by band of members of the senior management of the Company (whose biographies are set out on page 24 of this Annual Report) is set out below:

Remuneration band	Number of individuals
US$1 – US$300,000	1
US$300,001 – US$600,000	2
US$900,001 – US$1,200,000	1

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2019, to truly and fairly reflect the situation of the Company and the Group and the results and cash flows of the Group.

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

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

The auditor's responsibilities for the audit of the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 68 to 73 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

Characteristics of Risk Management and Internal Control System

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

Work Carried out and Reviewed of Risk Management and Internal Control

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

Internal audits carried out by the Internal Audit Department with the assistance from external consultants, ensure that the controls are carried out properly and functioning effectively according to the intended objectives. The results of the internal audits and reviews are reported to the Board and the Audit Committee at least once a year. In 2019, based upon the overall business objectives, the Company sorted out and identified the possible risks from four aspects namely strategic, marketing, operational and financial, which formed the basis of the risk management framework. The Internal Audit Department discussed with all the responsible departments to analyze and evaluate the risks identified, submitted the assessment and mitigation controls to be taken for major risks to the Company's management for review, and then to the Audit Committee and the Directors for discussion and approval. The Board has reviewed the effectiveness of the risk management and internal control system and confirmed that the system is effective during the Reporting Period, and there are no significant monitoring errors or control weaknesses identified.

THE PROCESSING AND PUBLISHING OF INSIDE INFORMATION

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

AUDITOR'S REMUNERATION

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

Services rendered	Amount (US$)
Audit services including interim review	1,052,000
Non-audit services – tax services	532,000
Total	1,584,000

JOINT COMPANY SECRETARIES

Mr. WONG Kenneth Tak-Kin (黃德堅) is one of the joint company secretaries of the Company, who is responsible for advising the Board on corporate governance matters and ensuring the Company's compliance with the policies and procedures of the Board, applicable laws, rules and regulations.

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

During the year ended December 31, 2019, each of Mr. Wong and Ms. Ng has taken no less than 15 hours of relevant professional training in compliance with the requirements of Rule 3.29 of the Listing Rules.

DIVIDEND POLICY

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

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

SHAREHOLDERS' RIGHTS

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

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION OF SHAREHOLDERS

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

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

Putting Forward Enquiries to the Board

For enquiries to the Board, Shareholders may contact our joint company secretary at our place of business in Hong Kong at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong or by email to fit-ir@fit-foxconn.com. The Company will endeavor to respond to their queries in a timely manner. Shareholders may also make enquiries with the Directors at the general meetings of the Company.

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

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

Independent Auditor's Report

To the Shareholders of FIT Hon Teng Limited

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

Opinion

What we have audited

The consolidated financial statements of FIT Hon Teng Limited (incorporated in the Cayman Island with limited liability under the name of Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as "FIT Hon Teng Limited") (the "Company") and its subsidiaries (the "Group") set out on pages 74 to 181, which comprise:

- the consolidated balance sheet as at December 31, 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Key Audit Matters

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of inventories	
Refer to notes 2.12, 4.3 and 22 to the consolidated financial statements At December 31, 2019, the Group held inventories of approximately USD703 million, net of provision for impairment of inventories of approximately USD25 million. Management determines the lower of cost and net realizable value ("NRV") of inventories by considering the ageing profile, inventory obsolescence and estimated selling price and selling expenses of individual inventory items, and replacement cost of materials. The cost of inventories may not be recoverable if those inventories are aged and damaged, or become obsolete, or if their NRV have been declined. Management consistently applies a provisioning methodology for slow- moving inventories based on inventory ageing and makes specific provision for obsolete inventories. It also conducts periodic review on inventory obsolescence, including performance of mid-year and annual inventory counts, and review of holding period for individual inventory items. We focused on this area due to the magnitude of the inventory balance and provision for impairment for the year to the consolidated financial position and results of the Group, and the significant management's judgement and estimates involved in determining the provision for impairment of inventories.	We understood and validated the key control procedures performed by management, including its procedures in estimating the NRV of the inventories and conducting periodic reviews on inventory obsolescence. In respect of the management's NRV estimates, we tested on a sample basis, the NRV of selected finished goods, by comparing the selling price of sales invoices issued subsequent to the year end less estimated selling expenses, against the carrying values of these individual finished goods. We tested on a sample basis, the NRV of selected materials, by comparing the replacement cost subsequent to the year end, against the carrying values of these individual materials. We tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondences and invoices. We evaluated the estimates made by management to determine the provisioning methodology for slow-moving and obsolete inventories by discussion with management on the latest market trend and by assessing the accuracy of historical provision for impairment of inventories. Based on the procedures described, we consider management's judgement and estimates in relation to the provision for impairment of inventories to be supportable by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment on goodwill arising from acquisition of Belkin International Inc. and its subsidiaries ("Belkin")	
Refer to Notes 4.4, 17 and 34 to the Group's consolidated financial statements. At December 31, 2019, the Group had goodwill arising from acquisition of Belkin for approximately USD442 million. Impairment assessment was performed based on the value in use calculation using the discounted cash flow model to determine the recoverable amounts of the cash-generating unit. Significant judgments and estimates about the key assumptions including revenue growth rate, long-term growth rate and discount rate applied to future cash flow forecast are required. We focused on this area due to the financial significance, involvement of significant judgments and estimates in the determination of the recoverable amount and the inherent uncertainty.	We tested management's impairment assessments of goodwill which focused on assessing the reasonableness of the key assumptions used in determining the recoverable amounts. Our procedures performed included the following: 1. We involved our internal valuation specialists to assess the appropriateness of the methodology and parameters (e.g. discount rate) used in determining the recoverable amounts. 2. We tested the underlying calculations used in the valuation model. 3. We assessed the reasonableness of the key assumptions used as follows: • Evaluated the assumptions used, mainly revenue growth rate and long-term growth rate within the impairment assessment by comparing them to historical results and economic and industry forecast; • Benchmarked the discount rate range which is used in determining the recoverable amount against certain market data and industry research; and • Performed sensitivity analysis over key assumptions in the model in order to assess the potential impact of a range of possible outcomes. Based on the procedures described, we consider management's judgement and estimates used in determination of the value in use calculation for goodwill impairment assessment to be supported by the available evidence.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
March 25, 2020

Consolidated Income Statement

Year ended December 31, 2019

	Note	2019 USD'000	2018 USD'000
Revenue	6	**4,372,382**	4,005,635
Cost of sales	9	**(3,618,187)**	(3,297,558)
Gross profit		**754,195**	708,077
Distribution costs and selling expenses	9	**(110,531)**	(85,440)
Administrative expenses	9	**(158,722)**	(126,099)
Research and development expenses	9	**(249,787)**	(227,083)
Reversal/(recognition) of impairment losses on financial assets – net	24	**1,219**	(1,697)
Other income	7	**24,143**	19,824
Other gains – net	8	**14,653**	20,970
Operating profit		**275,170**	308,552
Finance income	11	**21,837**	16,242
Finance costs	11	**(29,333)**	(13,325)
Finance (costs)/income – net	11	**(7,496)**	2,917
Share of results of associates and a joint venture – net	19	**(1,764)**	(107)
Profit before income tax		**265,910**	311,362
Income tax expense	12	**(32,615)**	(78,687)
Profit for the year		**233,295**	232,675
Profit attributable to:			
Owners of the Company		**235,414**	233,946
Non-controlling interests		**(2,119)**	(1,271)
		233,295	232,675
Earnings per share for profit attributable to owners of the Company during the year (expressed in US cents per share)			
Basic earnings per share	13	**3.57**	3.50
Diluted earnings per share	13	**3.49**	3.35

Consolidated Statement of Comprehensive Income

Year ended December 31, 2019

	2019 USD'000	2018 USD'000
Profit for the year	**233,295**	232,675
Other comprehensive (loss)/income:		
Items that may be reclassified subsequently to profit or loss		
Exchange difference arising on the translation of foreign operations	**(37,511)**	(90,080)
Items that may not be reclassified subsequently to profit or loss		
Fair value change in financial assets at fair value through other comprehensive income	**3,524**	(1,529)
Total other comprehensive loss for the year, net of tax	**(33,987)**	(91,609)
Total comprehensive income for the year	**199,308**	141,066
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	**201,458**	142,337
Non-controlling interests	**(2,150)**	(1,271)
	199,308	141,066

Consolidated Balance Sheet

As at December 31, 2019

	Note	2019 USD'000	2018 USD'000
ASSETS			
Non-current assets			
Land use rights	15	**–**	20,144
Property, plant and equipment	16(a)	**566,090**	599,336
Right-of-use assets	16(b)	**62,772**	–
Intangible assets	17	**744,541**	790,958
Financial assets at fair value through other comprehensive income	20	**17,694**	17,102
Financial assets at fair value through profit or loss	23	**56,957**	–
Interests in associates and a joint venture	19	**21,710**	6,199
Deposits and prepayments	24	**17,973**	14,409
Finance lease receivables	25	**62,452**	–
Deferred income tax assets	21	**114,931**	108,786
		1,665,120	1,556,934
Current assets			
Inventories	22	**702,587**	649,708
Trade receivables	24	**930,223**	935,135
Deposits, prepayments and other receivables	24	**76,446**	95,572
Finance lease receivables	25	**15,645**	–
Financial assets at fair value through profit or loss	23	**6,886**	1,147
Short-term bank deposits	26	**118,011**	6,424
Cash and cash equivalents	26	**892,111**	1,064,824
		2,741,909	2,752,810
Total assets		**4,407,029**	4,309,744
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**134,400**	131,708
Treasury shares	31(d)	**(92,930)**	(72,072)
Reserves	28	**2,025,277**	1,874,942
		2,066,747	1,934,578
Non-controlling interests		**10,600**	12,750
Total equity		**2,077,347**	1,947,328

	Note	2019 USD'000	2018 USD'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	29	**574,176**	–
Lease liabilities	16(b)	**22,582**	–
Deferred income tax liabilities	21	**60,995**	75,023
Other payables	30	**9,751**	18,307
		667,504	93,330
Current liabilities			
Trade and other payables	30	**1,086,463**	1,190,699
Contract liabilities	6	**3,174**	6,025
Lease liabilities	16(b)	**16,389**	–
Bank borrowings	29	**493,546**	989,401
Current income tax liabilities		**62,606**	82,961
		1,662,178	2,269,086
Total liabilities		**2,329,682**	2,362,416
Total equity and liabilities		**4,407,029**	4,309,744

The financial statements on pages 74 to 181 were approved by the Board of Directors on March 25, 2020 and are signed on its behalf by:

Mr. Lu Sung-Ching

Mr. Lu Pochin Christopher

Consolidated Statement of Changes in Equity

Year ended December 31, 2019

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

Consolidated Statement of Changes in Equity

Year ended December 31, 2019

		Attributable to owners of the Company							
	Note	Share capital USD'000	Treasury shares USD'000	Share premium and capital reserve (Note 28) USD'000	Other reserves (Note 28) USD'000	Retained earnings USD'000	Sub-total USD'000	Non-controlling interests USD'000	Total equity USD'000
Balance as at January 1, 2019		131,708	(72,072)	518,946	128,903	1,227,093	1,934,578	12,750	1,947,328
Comprehensive income/(loss)									
– Profit/(loss) for the year		–	–	–	–	235,414	235,414	(2,119)	233,295
Other comprehensive loss									
– Exchange difference arising on the translation of foreign operations		–	–	–	(37,480)	–	(37,480)	(31)	(37,511)
– Fair value change in financial assets at fair value through other comprehensive income		–	–	–	3,524	–	3,524	–	3,524
Total comprehensive (loss)/income for the year		–	–	–	(33,956)	235,414	201,458	(2,150)	199,308
Transaction with owners									
– Exercise of share grant plan		2,680	–	31,198	(33,878)	–	–	–	–
– Exercise of share option		12	–	420	(136)	–	296	–	296
– Shares purchase for share award scheme	31(d)	–	(25,580)	–	–	–	(25,580)	–	(25,580)
– Shares vested under share award scheme	31(d)	–	4,722	–	–	–	4,722	–	4,722
– Senior management and employees' share grant scheme and share award scheme	31	–	–	–	10,014	–	10,014	–	10,014
– Appropriation of statutory reserves		–	–	–	3,793	(3,793)	–	–	–
– Dividends paid	14	–	–	–	–	(58,741)	(58,741)	–	(58,741)
Total transactions with owners, recognized directly in equity		2,692	(20,858)	31,618	(20,207)	(62,534)	(69,289)	–	(69,289)
Balance at December 31, 2019		134,400	(92,930)	550,564	74,740	1,399,973	2,066,747	10,600	2,077,347

Consolidated Statement of Cash Flows

Year ended December 31, 2019

	Note	2019 USD'000	2018 USD'000
Cash flow from operating activities			
Cash generated from operations	32	**386,792**	782,961
Income tax paid		**(73,752)**	(86,045)
Net cash generated from operating activities		**313,040**	696,916
Cash flow from investing activities			
Payment for the purchase of property, plant and equipment	16	**(252,556)**	(118,586)
Proceeds from disposal of property, plant and equipment	32(b)	**12,993**	8,389
Payment for the purchase of intangible assets	17	**(2,185)**	(15,897)
Net payment for acquisition of subsidiaries	34	**–**	(870,563)
Proceeds from disposals of fair value at fair value through profit and loss		**664**	–
Payments for investments in financial assets at fair value through profit and loss		**(70,822)**	(706)
Payments for investments in associates and a joint venture		**(11,000)**	–
Payments for investments in financial assets at fair value through other comprehensive income		**(3,343)**	(8,253)
(Increase)/decrease in short-term bank deposits		**(113,731)**	42,244
Interest received		**21,399**	16,242
Proceeds from finance lease receivables		**1,258**	–
Net cash used in investing activities		**(417,323)**	(947,130)
Cash flow from financing activities			
Proceeds from issuance of ordinary shares		**–**	49
Exercise of share options and share grant		**296**	–
Shares purchased for share award scheme		**(25,580)**	(73,501)
Proceeds from bank borrowings	32(c)	**2,691,941**	2,667,945
Repayment for bank borrowings	32(c)	**(2,611,063)**	(1,973,983)
Interest paid		**(27,592)**	(12,968)
Principal elements of lease payments	32(c)	**(33,718)**	–
Contributions from non-controlling interests		**–**	13,992
Dividends paid	14	**(58,741)**	(46,817)
Net cash (used in)/generated from financing activities		**(64,457)**	574,717
Net (decrease)/increase in cash and cash equivalents		**(168,740)**	324,503
Cash and cash equivalents at beginning of the year		**1,064,824**	767,554
Exchange difference on cash and cash equivalents		**(3,973)**	(27,233)
Cash and cash equivalents at end of the year	26	**892,111**	1,064,824

Notes to the Consolidated Financial Statements

1 General information

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

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

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

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

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

2 Summary of significant accounting policies

2.1 Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income ("FVOCI") and financial assets at fair value through profit and loss ("FVPL") that are measured at fair values.

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group

The following new standards, amendments to standards, annual improvements and interpretation are mandatory for the first time for the financial year beginning on January 1, 2019 and are relevant to the Group's operations.

- IFRS 16 Leases
- Prepayment features with negative compensation – Amendments to IFRS 9
- Long-term interests in associates and joint ventures – Amendments to IAS 28
- Annual improvements to IFRS Standards 2015 – 2017 cycle
- Plan amendment, curtailment or settlement – Amendments to IAS 19
- Interpretation 23 uncertainty over income tax treatments

The Group had to change its accounting policies and make certain adjustments following the adoption of IFRS 16 as set out in Note 2.2. The other amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

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

The following new standard and amendments to standards, which may be relevant to the Group, have been issued and are effective after December 31, 2019. The Group has not early adopted them for the year ended December 31, 2019.

		Effective for annual periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	January 1, 2020
Amendments to IAS 1 and IAS 8	Definition of Material	January 1, 2020
Amendments to IFRS 3	Definition of a Business	January 1, 2020
IFRS 17	Insurance contracts	January 1, 2021
Amendments to IFRS 10 and IAS 28	Sales or contribution of assets between an investor and its associate or joint venture	To be determined
IAS 39, IFRS 7 and IFRS 9	Hedge accounting	January 1, 2020

The Group has commenced an assessment of the impact of these new standards and amendments to standards. The Group is not yet in a position to state whether they would have a significant impact of is results of operations and financial position.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 “Leases” on the Group’s consolidated financial statements and discloses the new accounting policies that have been applied from January 1, 2019 as follows.

The Group has adopted IFRS 16 from January 1, 2019, but has not restated comparatives as at 31 December 2018 and the year then ended, 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 consolidated balance sheet on January 1, 2019.

(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 approximately 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.

	USD’000
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

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

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

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.

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

	December 31, 2019 USD'000	January 1, 2019 USD'000
Land use rights	**30,248**	**20,144**
Office premises, warehouses and staff quarters	**31,724**	**53,565**
Motor vehicles, machinery and equipment	**800**	**1,043**
Total right-of-use assets	**62,772**	**74,752**

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

- land use rights – decrease by approximately USD20,144,000
- right-of-use assets – increase by approximately USD74,752,000
- prepaid lease payments – decrease by approximately USD708,000
- accrued lease payments – decrease by approximately USD142,000
- lease liabilities – increase by approximately USD54,042,000

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

(b) Impact on segment disclosures

Segment assets for December 31, 2019 all increased as a result of the change in accounting policy. The following segments were affected by the change:

	Segment assets USD'000
The People's Republic of China ("the PRC")	**21,437**
United States of America	**27,308**
Singapore	**679**
Vietnam	**12,072**
Others	**1,276**

(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".

2 Summary of significant accounting policies (continued)

2.3 Principles of consolidation and equity accounting

2.3.1 Subsidiaries and consolidation

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

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

Acquisition-related costs are expensed as incurred.

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

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

2 Summary of significant accounting policies (continued)

2.3 Principles of consolidation and equity accounting (continued)

2.3.1 Subsidiaries and consolidation (continued)

(a) Business combination (continued)

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

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.3.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights and/or participate in the entities' operations decision making process. Investments in associates are accounted for using the equity method of accounting (see Note 2.3.4 below), after initially being recognized at cost.

2.3.3 Joint arrangements

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint venture only.

Interests in a joint venture is accounted for using the equity method (see Note 2.3.4 below), after initially being recognized at cost in the consolidated balance sheet.

2 Summary of significant accounting policies (continued)

2.3 Principles of consolidation and equity accounting (continued)

2.3.4 Equity method

Under the equity method of accounting, interests in associate and interest in a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investees in profit or loss, and the Group's share of movements in other comprehensive income of the investees in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount.

Where the Group's share of losses equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of interests in associates and interest in a joint venture is tested for impairment in accordance with the policy described in Note 2.9.

2.3.5 Changes in ownership interests in subsidiaries without change of control

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

2.3.6 Separate financial information

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

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

2 Summary of significant accounting policies (continued)

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognized in other comprehensive income.

2 Summary of significant accounting policies (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

2.6 Land use rights

On or before December 31, 2018, land use rights are upfront payments to acquire long-term interests in the usage of land and they are accounted for as prepaid operating lease. They are carried at cost less accumulated amortization and accumulated impairment losses, if any (Note 2.9). Amortization is calculated using the straight-line method to allocate the cost of land use rights over the remaining period of each of the leases.

Since January 1, 2019, the accounting policy for land use rights is covered by IFRS 16 (Note 2.28).

2.7 Property, plant and equipment

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

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

2 Summary of significant accounting policies (continued)

2.7 Property, plant and equipment (continued)

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the consolidated balance sheet dates.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within 'Other gains – net' in the consolidated income statement.

2.8 Intangible assets

(a) Computer software

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

2 Summary of significant accounting policies (continued)

2.8 Intangible assets (continued)

(b) Trademarks, Trade names and licenses

Separately acquired trademarks, trade names and licenses are stated at historical cost. Trademarks, trade names and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, trade names and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, trade names and licenses over their estimated useful lives of 3 – 20 years.

(c) Technical knowhow

Technical knowhow, including developed technology, are stated at cost less accumulated amortization and any accumulated impairment losses. Developed technology acquired in a business combination are recognized at fair value at the date of acquisition. Amortization for technical knowhow with finite useful life is recognized on a straight-line basis over the estimated useful life of 4 – 10 years. The estimated useful life and amortization method are reviewed at the consolidated balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis.

(d) Goodwill

Goodwill is measured as described in Note 2.3.1(a) and Note 2.9. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(e) Customer relationships

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

(f) Supplier Relationships

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

2 Summary of significant accounting policies (continued)

2.9 Impairment of non-financial assets

Goodwill that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the consolidated c balance sheet date.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortized cost.

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

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

(b) Recognition and de-recognition

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

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(c) Measurement

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

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

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

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

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(c) Measurement (continued)

Debt instruments (continued)

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

Equity instruments

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

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

(d) Impairment

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

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

2 Summary of significant accounting policies (continued)

2.11 Offsetting financial instruments

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

2.12 Inventories

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

2.13 Trade and other receivables

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

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2.10(d) for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2 Summary of significant accounting policies (continued)

2.16 Treasury shares

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

2.17 Trade and other payables

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

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

2.18 Borrowings

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

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the consolidated balance sheet date.

2.19 Borrowing costs

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

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

2 Summary of significant accounting policies (continued)

2.20 Current and deferred income tax

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

2.20.1 Current income tax

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

2.20.2 Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

2 Summary of significant accounting policies (continued)

2.20 Current and deferred income tax (continued)

2.20.2 Deferred income tax (continued)

Outside basis differences (continued)

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

2.20.3 Offsetting

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

2.21 Employee benefits

2.21.1 Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Employees of the Group are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group.

The contributions are recognized as employee benefit expenses when they are due. Amounts not paid are shown in accruals as a liability in the consolidated balance sheet. The assets of the plans are held separately from the Group in independently administered funds.

2 Summary of significant accounting policies (continued)

2.21 Employee benefits (continued)

2.21.2 Housing funds, medical insurances and other social insurances

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

2.21.3 Employee leaves entitlements

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

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

2.22 Equity-settled share-based payments

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

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

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

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

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

2 Summary of significant accounting policies (continued)

2.22 Equity-settled share-based payments (continued)

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

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

When the shares are issued, the directly attributable transaction costs are credited to share capital and share premium.

2.23 Provisions and contingent liabilities

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.24 Government grants

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

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

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

2.25 Revenue recognition

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

Sales of goods

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

The goods are always sold with retrospective sales incentives and discounts. Revenue from these sales are recognized based on the price specified in the contract, net of the estimated sales incentives and discounts. Accumulated experience is used to estimate and provide for the discount, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability (contra to the trade receivables) is recognized for expected discounts entitled to customers in relation to sales made until the consolidated balance sheet date. No element of financing is deemed present as the sales are made with a credit term of less than 180 days, which is consistent with market practice.

Sales of scrap materials

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

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

Sales of service

Service income is recognized when services are provided over time.

2.26 Interest income

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

2.27 Rental income from operating lease

Rental income from operating lease is recognized in the consolidated income statements on a straight-line basis over the term of the lease. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.28 Leases

The Group as lessee

The Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is disclosed in Note 2.2.

Accounting policies applied until December 31, 2018

Until December 31, 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was 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 property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 16(b)). 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.

2 Summary of significant accounting policies (continued)

2.28 Leases (continued)

The Group as lessee (continued)

Accounting policies applied from January 1, 2019

From January 1, 2019, leases are 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.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

(a) where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

(b) uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and,

(c) makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal 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.

2 Summary of significant accounting policies (continued)

2.28 Leases (continued)

The Group as lessee (continued)

Accounting policies applied from January 1, 2019 (continued)

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

(a) the amount of the initial measurement of lease liability;

(b) any lease payments made at or before the commencement date less any lease incentives received;

(c) any initial direct costs; and

(d) restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding of the leases.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2 Summary of significant accounting policies (continued)

2.29 Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

2.30 Research and development costs

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

3 Financial risk management

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

3 Financial risk management (continued)

3.1 Market risk

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk, primarily the Renminbi ("RMB") and New Taiwan Dollar ("NTD"). Certain cash and cash equivalents, short-term bank deposits, trade and other receivables and trade and other payables are denominated in foreign currencies, which expose the Group to foreign exchange risk. The Group purchased certain forward exchange contracts to reduce the foreign exchange risk, however, those contracts are accounted for as financial assets at fair value through profit or loss with gains/(losses) recognized in profit or loss.

	2019 **USD'000**	2018 USD'000
Net profit increase/(decrease)		
NTD against USD		
– Strengthened 5%	**8,412**	(4,206)
– Weakened 5%	**(8,412)**	4,206
Net profit increase/(decrease)		
RMB against USD		
– Strengthened 5%	**3,860**	80
– Weakened 5%	**(3,860)**	(80)

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk is mainly attributable to its finance lease receivables, cash and bank balances, short-term bank deposits and bank borrowings. Financial assets and liabilities at variable rates, which includes cash and bank balances and bank borrowings, expose the Group to cash flow interest rate risk. During the year ended December 31, 2019, the Group's borrowings at variable rates were mainly denominated in RMB, TWD and USD (2018: same). Financial assets at fixed rates, mainly finance lease receivables, expose the Group to fair value interest rate risk. Details of the Group's finance lease receivables, cash and bank balances, short-term bank deposits and bank borrowings have been disclosed in Notes 25, 26 and 29 to the consolidated financial statements.

As at December 31, 2019, if the interest rates on bank balances and bank borrowings had been 100 basis points higher/lower with all other variables held constant, the profit before tax for the year would have been approximately USD576,000 higher/lower (2018: approximately USD818,000 higher/lower), mainly as a result of higher/lower net interest income on bank balances and bank borrowings.

3 Financial risk management (continued)

3.2 Credit risk

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

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

Trade receivables

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

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

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

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

Trade receivables (continued)

As at December 31, 2019 and 2018, the loss allowance for trade receivables was determined as follows, the expected credit losses below also incorporated forward looking information.

	Group 1	Group 2	Group 3	Group 4	Total USD'000
December 31, 2019					
Expected loss rate	**0.03%**	**0.07%**	**0.18-7.40%**	**1.02-9.62%**	
Gross carrying amount – trade receivables	**661,228**	**151,229**	**102,769**	**16,679**	**931,905**
Loss allowance	**(174)**	**(101)**	**(583)**	**(824)**	**(1,682)**

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

Other receivables

As at December 31, 2019, the Group has considered the probability of default upon initial recognition of assets and whether there has been significant increase in credit risk on an ongoing basis for the year. To assess whether there is a significant increase in credit risk, the Group considered the actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations. The Group determined the expected loss rate for other receivables was immaterial and no loss allowance for other receivables was recognized.

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

Other receivables (continued)

The credit quality of the amounts due from related parties, finance lease receivables and other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of amounts due from related parties, finance lease receivables and other receivables is low due to the sound collection history and financial stability of the counterparties. Therefore, expected credit loss rate of the amounts due from related parties, finance lease receivables and other receivables excluding prepayments is assessed to be close to zero and no provision was made as of December 31, 2019.

3.3 Liquidity risk

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

(i) Financing arrangements

The Group had the following bank borrowings at the consolidated balance sheet date:

	2019 **USD'000**	2018 USD'000
Floating rate		
Expiring within one year	**493,546**	989,401
Expiring between one to five years	**574,176**	–
	1,067,722	989,401

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

(ii) Maturities of financial liabilities

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

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

	Less than 1 years USD'000	From 1 year to 2 years USD'000	From 2 years to 5 years USD'000	Over 5 years USD'000	Total contractual cash flows USD'000	Carrying amount USD'000
At December 31, 2019						
Trade and other payables	**975,464**	**1,430**	**3,760**	**–**	**980,654**	**980,654**
Lease liabilities	**16,389**	**12,693**	**8,689**	**1,200**	**38,971**	**38,971**
Borrowings	**493,546**	**–**	**574,176**	**–**	**1,067,722**	**1,067,722**
At December 31, 2018						
Trade and other payables	1,082,806	1,395	5,065	–	1,089,266	1,089,266
Borrowings	991,865	–	–	–	991,865	991,865

3.4 Capital risk management

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

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

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

3 Financial risk management (continued)

3.4 Capital risk management (continued)

The gearing ratios at December 31, 2019 and 2018 were as follows:

	2019 USD'000	2018 USD'000
Bank borrowings (Note 29)	**1,067,722**	989,401
Less: cash and cash equivalents and short term bank deposits (Note 26)	**(1,010,122)**	(1,071,248)
Net debt/(surplus cash)	**57,600**	(81,847)
Total equity	**2,077,347**	1,947,328
Total capital	**2,134,947**	1,947,328
Gearing ratio	**2.7%**	Not applicable

3.5 Fair value estimation

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

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

3 Financial risk management (continued)

3.5 Fair value estimation (continued)

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

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**
Financial assets				
Financial assets at fair value through profit or loss	**–**	**6,886**	**56,957**	**63,843**
Financial assets at fair value through other comprehensive income	**–**	**–**	**17,694**	**17,694**
	–	**6,886**	**74,651**	**81,537**

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

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

4 Critical accounting estimates and judgments

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

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

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

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

4.2 Estimated useful lives of intangible assets excluding goodwill

The Group's intangible assets are mainly from several businesses acquisitions completed by the Group in prior years. The Group estimates the useful life of the intangible assets based on the current contracted or expected usages periods, and the expected obsolescence of such assets. However, the actual useful life may be shorter or longer depending on technical innovations and competitor actions. The estimated economic useful lives reflect the Group's expectation of the period over which the Group will continue to receive economic benefit from the intangible assets. The economic useful lives are periodically reviewed taking into consideration such factors as changes in technology and markets. Any changes to economic lives might have material impact to the Group's results and financial position.

4.3 Net realizable value of inventories

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

4 Critical accounting estimates and judgments (continued)

4.4 Estimations in goodwill impairment assessment

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on the higher of fair value less costs of disposal or value in use calculations. The recoverable amount calculations primarily use cash flow forecast based on financial budgets and forecasts covering a period of five years approved by management and estimated terminal value at the end of the forecast period.

There are a number of assumptions and estimates involved in the preparation of cash flow forecast for the period covered by the approved budgets. Key assumptions include the growth rates and discount rates to reflect the risks involved. Management prepares the financial budgets and forecasts reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow forecast and changes to key assumptions could affect these cash flow forecast and therefore the results of the impairment reviews.

Details refer to Note 17.

4.5 Current and deferred income taxes

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

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

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

4 Critical accounting estimates and judgments (continued)

4.6 Impairment of financial assets

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

5 Segment information

The operating segment is reported in the manner consistent with the internal reporting provided to the Chief Operating Decision Makers ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that 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 services of connectors, cases, thermal modules, wired/wireless communication products, networking products, optical products, power supply modules, and assemblies for use in Information Technology ("IT"), communications, automotive equipment, precision molding, automobile, home automation solution, and consumer electronics industries. The Group carries out its manufacturing process mainly through the production complexes located in the PRC and Vietnam, while the sales and services of the Group are principally conducted in Taiwan, Singapore, Australia, the PRC, the United States of America and Europe.

On September 20, 2018, the Group acquired Belkin International (Note 34(a)), which is principally engaged in trading and distribution of routers and mobile device related products. Given the Belkin International's business only became part of the Group for a short period of time, and its financial information was not material to the Group for the year ended December 31, 2018, and there was no material change in the structure of internal reporting in a manner that causes the composition of its reportable segments to change for the year ended December 31, 2018. For the year ended December 31, 2019, the Group internally reviewed and assessed the financial performance and position of consumer products and intermediate products. Accordingly, the related revenue, assets and liabilities of the operating segments of consumer products and intermediate products are presented for the year ended December 31, 2019. The segment information for the year ended December 31, 2018 is not restated.

5 Segment information (continued)

Segment revenue and results

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

For the year ended December 31, 2019

	Intermediate products USD'000	Consumer products USD'000	Total USD'000
Revenue	3,548,212	824,170	4,372,382
Gross profit			754,195
Unallocated:			
Expenses – net			(517,821)
Other income			24,143
Other gains – net			14,653
Finance costs – net			(7,496)
Share of results of associates and a joint venture – net			(1,764)
Profit before income tax			265,910

5 Segment information (continued)

Segment assets and liabilities

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

At December 31, 2019

	Intermediate products USD'000	Consumer products USD'000	Total USD'000
Assets			
Segment assets	1,532,198	1,028,788	2,560,986
Unallocated:			
Property, plant and equipment			566,090
Right-of-use assets			62,772
Intangible assets			25,715
Financial assets at fair value through other comprehensive income			17,694
Financial assets at fair value through profit or loss			63,843
Interests in associates and a joint venture			21,710
Finance lease receivables			78,097
Short-term bank deposits			118,011
Cash and cash equivalents			892,111
Total assets			4,407,029
Liabilities			
Segment liabilities	941,400	278,415	1,219,815
Unallocated:			
Bank borrowings			1,067,722
Lease liabilities			38,971
Contract liabilities			3,174
Total liabilities			2,329,682

5 Segment information (continued)

Segment assets and liabilities (continued)

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

	2019 USD'000	2018 USD'000
The PRC	**1,034,694**	1,369,015
Taiwan	**370,850**	326,093
Hong Kong	**340,799**	253,376
United States of America	**1,908,404**	1,455,207
Singapore	**222,543**	150,637
Others	**495,092**	451,307
	4,372,382	4,005,635

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

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

	2019 USD'000	2018 USD'000
The PRC	**460,279**	475,545
Taiwan	**11,346**	10,241
United States of America	**39,867**	27,588
Singapore	**689**	65,958
Vietnam	**125,875**	43,870
Others	**30,489**	16,886
	668,545	640,088

5 Segment information (continued)

Segment assets and liabilities (continued)

During the year ended December 31, 2019, there were two customers (2018: two customers) which individually contributed over 10% of the Group's total revenue. During the year, the revenue contributed from these customers are as follows:

	2019 USD'000	2018 USD'000
Customer A	**1,440,769**	1,090,086
Customer B	**843,534**	1,063,633

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

6 Revenue

	2019 USD'000	2018 USD'000
Sales of goods	**4,300,167**	3,933,543
Provision of services	**15,845**	15,847
Sales of scrap materials	**56,370**	56,245
	4,372,382	4,005,635

Sales of goods and scrap materials are recognized at point in time and provision of services is recognized over time as disclosed in Note 2.25.

The Group has recognized following liabilities related to contracts with customers as at December 31, 2019 and 2018:

	2019 USD'000	2018 USD'000
Contract liabilities – sales of goods	**3,174**	6,025

6 Revenue (continued)

The following table shows the amount of the revenue recognized for the years ended December 31, 2019 and 2018 related to carried-forward contract liabilities.

	2019 USD'000	2018 USD'000
Sales of goods	**6,025**	6,452

7 Other income

	2019 USD'000	2018 USD'000
Rental income from properties	**6,838**	6,057
Government grant income	**8,089**	9,211
Others (note)	**9,216**	4,556
	24,143	19,824

Note: Included approximately USD7,000,000 received from the selling shareholder of Belkin International Inc. ("Belkin") in respect of the early termination of the indemnification period in relation to the acquisition of Belkin.

8 Other gains – net

	2019 USD'000	2018 USD'000
Net foreign exchange gains	**24,713**	24,406
Net fair value losses on financial assets at fair value through profit or loss	**(7,787)**	(3,825)
(Losses)/gains on disposal of property, plant and equipment	**(2,717)**	1,913
Fair value gains from revaluation of interests in an associate upon acquisition as a subsidiary	**–**	133
Others	**444**	(1,657)
	14,653	20,970

9 Expenses by nature

	2019 USD'000	2018 USD'000
Cost of inventories	**2,328,827**	2,109,008
Employee benefit expenses (Note 10)	**621,917**	604,074
Subcontracting expenses	**364,266**	325,825
Depreciation of property, plant and equipment (Note 16(a))	**183,155**	186,776
Depreciation of right-of-use assets (Note 16(b))	**27,480**	–
Moulding and consumables	**207,236**	152,977
Impairment of goodwill (Note 17)	**3,075**	–
Utilities	**51,783**	50,280
Professional expenses	**53,185**	38,028
Delivery expenses	**64,137**	41,987
Short-term and low-value lease expenses	**6,081**	–
Operating lease expenses	**–**	23,419
Amortization of intangible assets (Note 17)	**44,324**	13,811
Impairment of intangible assets (Note 17)	**1,399**	–
Auditor's remuneration	**1,052**	1,350
Amortization of land use rights (Note 15)	**–**	588
Others	**179,310**	188,057
Total cost of sales, distribution costs and selling expenses, administrative expenses and research and development expenses	**4,137,227**	3,736,180

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

	2019 USD'000	2018 USD'000
Salaries, wages and bonuses	**547,206**	524,616
Pension, housing fund, medical insurance and other social insurances	**37,597**	34,748
Share-based payment expenses (Note 31)	**14,736**	18,636
Staff welfare and other benefits	**22,378**	26,074
	621,917	604,074

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

(a) Directors and chief executive's emoluments

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

	Director's fee USD'000	Salaries, wages and bonuses USD'000	Pension, housing fund, medical insurance and other social insurances USD'000	Share-based payment expenses USD'000	Total USD'000
For the year ended December 31, 2018					
Executive Director					
Lu Sung-Ching	–	3,720	–	9,334	13,054
Lu Pochin Christopher	–	3,700	–	–	3,700
William Ralph Gillespie	–	1,109	44	204	1,357
Pipkin Chester John	–	–	–	–	–
Non-Executive Director					
Chen, Galane (Note 1)	–	501	39	60	600
Independent Non-Executive Director					
Curwen Peter D	75	–	–	–	75
Tang Kwai Chang	75	–	–	–	75
Chan Wing Yuen Hubert	75	–	–	–	75
	225	9,030	83	9,598	18,936

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

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

	Director's fee USD'000	Salaries, wages and bonuses USD'000	Pension, housing fund, medical insurance and other social insurances USD'000	Share-based payment expenses USD'000	Total USD'000
For the year ended December 31, 2019					
Executive Director					
Lu Sung-Ching	–	3,480	1	9,468	12,949
Lu Pochin Christopher	–	2,000	–	2,308	4,308
William Ralph Gillespie	–	518	31	225	774
Pipkin Chester John	–	844	46	14	904
Non-Executive Director					
Chen, Galane (Note 1)	–	–	–	–	–
Trainor-DeGirolamo Sheldon	48	–	–	–	48
Independent Non-Executive Director					
Curwen Peter D	75	–	–	–	75
Tang Kwai Chang	75	–	–	–	75
Chan Wing Yuen Hubert	75	–	–	–	75
	273	6,842	78	12,015	19,208

The remuneration shown above represents remuneration received and receivable from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the year. No directors waived or agreed to waive any emoluments during the year (2018: Nil).

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

(b) Directors' retirement benefits

Save as disclosed in note (a) above, no retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking during the year ended December 31, 2019 (2018: Nil).

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

(c) Directors' termination benefits

No payment was made to directors as compensation for early termination of the appointment during the year ended December 31, 2019 (2018: Nil).

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

No payment was made to third parties for making available directors' services during the year ended December 31, 2019 (2018: Nil).

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

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year ended December 31, 2019 (2018: Nil).

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

There are no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2019 (2018: Nil).

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include three directors for the year ended December 31, 2019 (2018: three), and their emoluments are reflected in the analysis shown in Note 10(a). The emoluments payable to the remaining two (2018: two) individuals during the year ended December 31, 2019 are as follows:

	2019 **USD'000**	2018 USD'000
Salaries, wages and bonuses	**2,534**	1,677
Pension, housing fund, medical insurance and other social insurances	**84**	55
Share-based payment expenses (Note 31)	**656**	116
	3,274	1,848

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

(g) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	2019	2018
Emoluments bands:		
USD800,001 to USD900,000	–	1
USD1,000,001 to USD1,100,000	–	1
USD1,400,001 to USD1,500,000	1	–
USD1,700,001 to USD1,800,000	1	–
	2	2

During the year ended December 31, 2019, neither directors nor other members of the five highest paid individuals received any emoluments from the Group as an inducement to join, upon joining the Group, to leave the Group or as compensation for loss of office.

11 Finance (costs)/income – net

	2019 USD'000	2018 USD'000
Finance income:		
– short-term bank deposits and cash equivalents	21,399	16,242
– finance lease receivables	113	–
– financial assets at fair value through profit or loss	325	–
	21,837	16,242
Finance costs:		
– bank borrowings	(27,592)	(13,325)
– lease liabilities	(1,741)	–
	(29,333)	(13,325)
Finance (costs)/income – net	(7,496)	2,917

12 Income tax expense

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

	2019 USD'000	2018 USD'000
Current income tax		
– Current taxes on profits for the year	**57,600**	81,455
– (Over)/under-provision in prior years (note (a))	**(4,812)**	23,933
Deferred income tax (Note 21)	**(20,173)**	(26,701)
Income tax expense	**32,615**	78,687

(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% (2018: 25%).

Three PRC subsidiaries (2018: two PRC subsidiaries) of the Group are qualified for new/high-technology enterprises status and enjoyed preferential income tax rate of 15% (2018: 15%) during the year.

One of the PRC subsidiaries of the Group is qualified for a preferential income tax rate of 15%, under the Notice of the Ministry of Finance, according to the General Administration of Customs and the State Administration of Taxation on the Taxation Policies for Deepening the Implementation of the Western Development Strategy, during the years ended December 31, 2019 and 2018.

Under provision in prior years

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

(b) Taiwan profit-seeking enterprise income tax

Taiwan profit-seeking enterprise income tax has been provided for at the rate of 20% (2018: 20%) on the estimated taxable profits during the year.

12 Income tax expense (continued)

(c) Singapore corporate income tax

During the year ended December 31, 2019, a Singapore incorporated subsidiary of the Group has restructured its operations. As a result, the subsidiary is no longer entitled to the 5% incentive for the profits generated from Development and Expansion Incentives activities ("DEI") from March 21, 2019. Profits generated in the period from March 21, 2019 to December 31, 2019 is taxed at the rate of 17%.

During the year ended December 31, 2018, a Singapore incorporated subsidiary of the Group was awarded the incentives for the establishment of pioneer industries and for economic expansion, and its profits generated from DEI and non-DEI were taxed at 5% and 17% respectively.

(d) Vietnam corporate income tax

The current tax regulations allow the Vietnam incorporated subsidiary to be exempted from income tax for 2 years starting from the first year with taxable profits and is entitled to a 50% reduction in income tax for the next 4 succeeding years.

The Vietnam incorporated subsidiary of the Group is entitled to a 50% reduction in income tax for 4 consecutive years from 2019 to 2022. The Vietnam corporate income tax is calculated at the rate of 10% on the chargeable income of the subsidiary in accordance with Vietnam income tax act for the year ended December 31, 2019 (2018: exempted from income tax).

(e) Other foreign countries income tax

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

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

	2019 USD'000	2018 USD'000
Profit before income tax	**265,910**	311,362
Tax calculated at domestic tax rate applicable to profits in the respective countries	**48,057**	57,342
Tax effect of:		
Expenses not deductible for tax purpose	**464**	928
Income not subject to income tax	**(6,238)**	(681)
Changes of applicable tax rate in Taiwan	**–**	(2,835)
Recognition of tax credits	**(7,211)**	–
Tax losses not recognized	**2,355**	–
(Over)/under-provision in prior years – net	**(4,812)**	23,933
	32,615	78,687

13 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue, excluding treasury shares (Note 31), during the years ended December 31, 2019 and 2018.

	2019	2018
Net profit attributable to the owners of the Company (USD'000)	**235,414**	233,946
Weighted average number of ordinary shares in issue (in thousands)	**6,585,524**	6,676,202
Basic earnings per share (US cents)	**3.57**	3.50

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended December 31, 2019, the Group has one category of dilutive potential ordinary shares (2018: two categories).

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

	2019	2018
Net profit attributable to the owners of the Company (USD'000)	**235,414**	233,946
Weighted average number of ordinary shares in issue (in thousands)	**6,585,524**	6,676,202
Adjustments for:		
– impact of the senior management and employees' share grant schemes (in thousands)	**169,469**	308,787
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**6,754,993**	6,984,989
Diluted earnings per share (US cents)	**3.49**	3.35

14 Dividends

	2019 **USD'000**	2018 USD'000
Dividends	**–**	60,233

No dividend in respect of the year ended December 31, 2019 has been declared as of the date of this annual report (2018: dividend of USD60,233,000).

15 Land use rights

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

	2019 **USD'000**	2018 USD'000
At beginning of the year	**20,144**	21,850
Reclassification to right-of-use assets resulting from change in accounting policy, see Notes 2.2(a) and 16	**(20,144)**	–
Amortization of land use rights	**–**	(588)
Exchange difference arising on the translation of foreign operations	**–**	(1,118)
At end of the year	**–**	20,144

16 Property, plant and equipment and right-of-use assets

(a) Property, plant and equipment

	Buildings USD'000	Machinery and equipment USD'000	Furniture, fixtures and office equipment USD'000	Molds and molding equipment USD'000	Leasehold improvement USD'000	Construction in progress USD'000	Total USD'000
As at January 1, 2018							
Cost	499,010	686,992	213,762	143,994	16,885	86,981	1,647,624
Accumulated depreciation	(269,217)	(429,992)	(175,308)	(93,744)	(3,480)	–	(971,741)
Net book amount	229,793	257,000	38,454	50,250	13,405	86,981	675,883
Year ended December 31, 2018							
Opening net book amount	229,793	257,000	38,454	50,250	13,405	86,981	675,883
Transfers	1,256	11,998	1,040	76,711	279	(91,284)	–
Additions	–	36,091	20,983	1,933	–	59,579	118,586
Acquisitions of subsidiaries (Note 34)	21	7,180	10,068	5,931	–	1,458	24,658
Disposals	–	(5,918)	(549)	(9)	–	–	(6,476)
Depreciation	(22,439)	(68,668)	(25,266)	(65,642)	(4,761)	–	(186,776)
Currency translation difference	(10,645)	(9,362)	(1,936)	(1,647)	(76)	(2,873)	(26,539)
Closing net book amount	197,986	228,321	42,794	67,527	8,847	53,861	599,336
As at December 31, 2018							
Cost	474,824	688,218	230,487	218,500	16,774	53,861	1,682,664
Accumulated depreciation	(276,838)	(459,897)	(187,693)	(150,973)	(7,927)	–	(1,083,328)
Net book amount	197,986	228,321	42,794	67,527	8,847	53,861	599,336

16 Property, plant and equipment and right-of-use assets (continued)

(a) Property, plant and equipment (continued)

	Buildings USD'000	Machinery and equipment USD'000	Furniture, fixtures and office equipment USD'000	Molds and molding equipment USD'000	Leasehold improvement USD'000	Construction in progress USD'000	Total USD'000
As at January 1, 2019							
Cost	474,824	688,218	230,487	218,500	16,774	53,861	1,682,664
Accumulated depreciation	(276,838)	(459,897)	(187,693)	(150,973)	(7,927)	–	(1,083,328)
Net book amount	197,986	228,321	42,794	67,527	8,847	53,861	599,336
Year ended December 31, 2019							
Opening net book amount	197,986	228,321	42,794	67,527	8,847	53,861	599,336
Transfers	11,347	48,290	1,718	47,038	1,355	(109,748)	–
Additions	10,568	66,105	43,917	1,641	–	134,008	256,239
Disposals	–	(88,249)	(6,425)	(278)	–	–	(94,952)
Depreciation	(19,539)	(58,534)	(41,957)	(59,141)	(3,984)	–	(183,155)
Currency translation difference	(2,619)	(7,106)	(291)	(632)	(2)	(728)	(11,378)
Closing net book amount	197,743	188,827	39,756	56,155	6,216	77,393	566,090
As at December 31, 2019							
Cost	494,120	659,551	230,391	262,322	18,129	77,393	1,741,906
Accumulated depreciation	(296,377)	(470,724)	(190,635)	(206,167)	(11,913)	–	(1,175,816)
Net book amount	197,743	188,827	39,756	56,155	6,216	77,393	566,090

16 Property, plant and equipment and right-of-use assets (continued)

(a) Property, plant and equipment (continued)

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

	2019 USD'000	2018 USD'000
Cost of sales	**158,150**	164,715
Distribution costs and selling expenses	**477**	307
Administrative expenses	**10,924**	10,637
Research and development expenses	**13,604**	11,117
	183,155	186,776

(b) Right-of-use assets

The Group has lease contracts for land and buildings and various items of machinery and equipment used in its operations. The movements during the year are set out below:

	Land-use-right USD'000	Office premises, warehouse and staff quarters USD'000	Motor vehicles, machinery and equipment USD'000	Total USD'000
Net book value at January 1, 2019, as previously reported	–	–	–	–
Opening adjustment upon the adoption of IFRS 16, see Notes 2.2(a) and 15	20,144	53,565	1,043	74,752
Net book value at January 1, 2019, as restated	20,144	53,565	1,043	74,752
Additions	11,077	4,999	264	16,340
Depreciation	(701)	(26,205)	(574)	(27,480)
Exchange differences	(272)	(635)	67	(840)
Net book value at December 31, 2019	30,248	31,724	800	62,772

16 Property, plant and equipment and right-of-use assets (continued)

(b) Right-of-use assets (continued)

(i) Amounts recognized in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	December 31, 2019 USD'000	January 1, 2019 USD'000
Right-of-use assets		
Land use rights	30,248	20,144
Office premises, warehouse and staff quarters	31,724	53,565
Motor vehicles, machinery and equipment	800	1,043
	62,772	74,752
Lease liabilities		
Current	16,389	17,723
Non-current	22,582	36,319
	38,971	54,042

In the previous year, the Group only recognized lease assets and lease liabilities in relation to leases that were classified as "finance leases" under IAS 17 "Leases". For details of adjustments recognized upon the adoption of IFRS 16 on January 1, 2019, please refer to Note 2.2(a).

16 Property, plant and equipment and right-of-use assets (continued)

(b) Right-of-use assets (continued)

(ii) Amounts recognized in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	2019 USD'000
Depreciation charge of right-of-use assets	
Land-use-rights	701
Office premises, warehouse and staff quarter	26,205
Motor vehicles, machinery and equipment	574
	27,480
Interest expenses (included in finance costs)	1,741
Expenses relating to short-term leases (included in cost of goods sold and administrative expenses)	6,057
Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	24

The total cash outflow for leases in the year ended December 31, 2019 was approximately USD38,662,000.

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

The Group leases various offices, warehouses, retail stores, equipment and vehicles. Lease contracts are typically made for fixed periods, but may have extension options as described in (iv) 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 other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

16 Property, plant and equipment and right-of-use assets (continued)

(b) Right-of-use assets (continued)

(iv) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The Group recognizes right-of-use assets with extension and termination options that are exercisable only by the Group and not by the respective lessor only if the Group is highly likely to exercise the options. As at December 31, 2019, the Group did not recognize extension and termination options as they were not were expected to exercise.

17 Intangible assets

	Trademarks and trade name USD'000	Customer relationships and others USD'000	Software USD'000	Licenses USD'000	Technical knowhow USD'000	Goodwill USD'000	Total USD'000
As at January 1, 2018							
Cost	–	–	1,186	18,190	2,098	3,074	24,548
Accumulated amortization	–	–	(542)	(10,057)	–	–	(10,599)
Net book amount	–	–	644	8,133	2,098	3,074	13,949
Year ended December 31, 2018							
Opening net book amount	–	–	644	8,133	2,098	3,074	13,949
Additions	–	–	1,494	14,403	–	–	15,897
Acquisition of subsidiaries (Note 34)	143,600	58,200	2,296	–	128,207	443,356	775,659
Amortization	(2,131)	(542)	(848)	(3,800)	(6,490)	–	(13,811)
Currency translation difference	–	–	(2)	(278)	(456)	–	(736)
Closing net book amount	141,469	57,658	3,584	18,458	123,359	446,430	790,958
As at December 31, 2018							
Cost	143,600	58,200	4,976	32,593	130,305	446,430	816,104
Accumulated amortization	(2,131)	(542)	(1,392)	(14,135)	(6,946)	–	(25,146)
Net book amount	141,469	57,658	3,584	18,458	123,359	446,430	790,958

17 Intangible assets (continued)

	Trademarks and trade name USD'000	Customer relationships and others (Note a) USD'000	Software USD'000	Licenses USD'000	Technical knowhow USD'000	Goodwill USD'000	Total USD'000
As at January 1, 2019							
Cost	143,600	58,200	4,976	32,593	130,305	446,430	816,104
Accumulated amortization	(2,131)	(542)	(1,392)	(14,135)	(6,946)	–	(25,146)
Net book amount	141,469	57,658	3,584	18,458	123,359	446,430	790,958
Year ended December 31, 2019							
Opening net book amount	141,469	57,658	3,584	18,458	123,359	446,430	790,958
Additions	–	–	2,185	–	–	–	2,185
Disposals	–	–	(210)	–	–	–	(210)
Amortization	(7,750)	(6,548)	(1,851)	(3,804)	(24,371)	–	(44,324)
Impairment loss (Note 9, 17(e))	–	–	–	–	(1,399)	(3,075)	(4,474)
Currency translation difference	–	–	9	65	332	–	406
Closing net book amount	133,719	51,110	3,717	14,719	97,921	443,355	744,541
As at December 31, 2019							
Cost	143,600	58,200	6,951	32,593	128,906	443,355	813,605
Accumulated amortization	(9,881)	(7,090)	(3,234)	(17,874)	(30,985)	–	(69,064)
Net book amount	133,719	51,110	3,717	14,719	97,921	443,355	744,541

17 Intangible assets (continued)

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

	2019 USD'000	2018 USD'000
Cost of sales	**1,574**	9,065
Distribution costs and selling expenses	**70**	57
Administrative expense	**42,376**	4,442
Research and development expenses	**304**	247
	44,324	13,811

(a) Additions for technical knowhow for the year ended December 31, 2018 included intangible assets of approximately USD13,805,000 purchased from Sharp Corporation ("Sharp"), an associate of Hon Hai. The subsidiary of the Group is granted a right to develop, assemble and manufacture certain types or models of automotive cameras and electronic mirrors by using this know-how knowledge until December 31, 2023.

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

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

(d) Impairment assessment for Goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") that are expected to benefit from business combination and impairment testing is performed annually on goodwill allocated to its respective CGUs. The balance mainly include the goodwill of approximately USD441,509,000 arising from the acquisition of Belkin during the year ended December 31, 2018.

17 Intangible assets (continued)

(d) Impairment assessment for Goodwill (continued)

(i) The recoverable amount of a CGU is determined based on higher of its fair value less costs of disposal and value-in-use calculations. The recoverable amount of the CGU relating to the goodwill arising from acquisition of Belkin was determined based on value-in-use calculation. The calculation uses cash flow projected based on financial budgets of five year period which reflects the medium term plan of management in expanding the customer based and market share. Cash flows beyond the 5-year period are extrapolated using the estimated growth rates. The key assumptions used for the value-in-use calculation are as follows:

	2019
Five-year revenue growth rate	**9.6%**
Long term growth rate	**2%**
Pre-tax discount rate	**13.6%**

As a result of the impairment review, the recoverable amounts of the CGU in which goodwill has been allocated are higher than their carrying amounts as at December 31, 2019. As a result, no impairment loss was charged during the year ended December 31, 2019 (2018: Nil).

The recoverable amount calculated based on the value-in-use calculation exceeded carrying amount by approximately USD112,000,000 as at December 31, 2019. If the pre-tax discount rate used had been 0.5% higher in the value-in-use calculation, the headroom will be reduced by USD35,352,000.

(ii) During the year ended December 31, 2019, the Group has provided for impairment for goodwill of USD3,075,000 which was derived from the acquisition of a subsidiary specialized in research and development and manufacturing of batteries. Due to lack of breakthrough in the research and development of the related batteries technology, the Group did not consider the goodwill was sustainable and impaired the goodwill in full.

18 Interests in subsidiaries

The Company's subsidiaries at December 31, 2019 are set out below.

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

	2019 USD'000	2018 USD'000
At beginning of the year	2,041,811	1,161,447
Acquisition of and capital injection to subsidiaries	63,240	880,364
At end of the year	2,105,051	2,041,811

Name of entity	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest held by the Group 2019 %	Ownership interest held by the Group 2018 %	Ownership interest held by non-controlling interests 2019 %	Ownership interest held by non-controlling interests 2018 %
富士康(昆山)電腦接插件有限公司("Foxconn Computer Connectors (Kunshan) Co., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD44,600,000	100	100	-	-
富士康電子工業發展(昆山)有限公司("Foxconn Electronics Industry Development (Kunshan) Co., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD124,000,000	100	100	-	-
富頂精密組件(深圳)有限公司("Fu Ding Precision Component (Shenzhen) Co., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD48,000,000	100	100	-	-
富鼎精密工業(鄭州)有限公司("Fu Ding Precision Industry (Zhengzhou) Co., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD40,000,000	100	100	-	-
淮安市富利通貿易有限公司("Huaian Fu Li Tong Trading Co., Ltd.")*	PRC, limited liability company	Sale of interconnect solutions and related products in PRC	RMB30,000,000	100	100	-	-
富譽電子科技(淮安)有限公司("Fu Yu Electronics Technology (Huaian) Co., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD266,200,000	100	100	-	-
淮安安亞貿易有限公司 ("An Ya Trading (Huaian) Co., Ltd.")*	PRC, limited liability company	Sale of interconnect solutions and related products in PRC	RMB1,000,000	100	100	-	-
淮安鴻裕電子科技有限公司("Huaian Hong Yu Electronics Technology Co., Ltd.")*	PRC, limited liability company	Sale of interconnect solutions and related products in PRC	RMB10,000,000	100	100	-	-

18 Interests in subsidiaries (continued)

Name of entity	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2019	2018	**2019**	2018
				%	%	**%**	%
淮安騰躍信息科技有限公司("Huaian Teng Yue Information Technology Co., Ltd.")*	PRC, limited liability company	Structure cabling, installation and maintenance of intelligent control system in PRC	RMB1,000,000	**80**	80	**20**	20
重慶市鴻騰科技有限公司("Chongqing Hong Teng Technology Co., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD3,000,000	**100**	100	**–**	–
富盟電子科技(菏澤)有限公司("Fu Meng Electronics Technology (Heze) CO., Ltd.")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD5,000,000	**100**	100	**–**	–
淮安富啟電子科技有限公司("Fu Qi Electronics Technology Co., Ltd")*	PRC, limited liability company	Production of interconnect solutions and related products in PRC (currently dormant)	RMB10,000,000	**100**	100	**–**	–
Foxconn Interconnect Technology Singapore Pte Ltd. ("FIT Singapore")	Singapore, limited liability company	Sale of interconnect solutions and related products in Singapore	USD1,066,509,441	**100**	100	**–**	–
昆山安亞鴻貿易有限公司("An Ya Hong Trading (Kunshan) Co., Ltd.")*	PRC, limited liability company	Sale of interconnect solutions and related products in PRC	RMB1,000,000	**100**	100	**–**	–
New Beyond Maximum Industrial Ltd.	Samoa, limited liability company	Consolidation and allocation of purchase orders in Samoa	USD1	**100**	100	**–**	–
Foxconn Interconnect Technology (USA) Inc.	USA, limited liability company	Sale of interconnect solutions and related products in the USA	Limited by guarantee	**100**	100	**–**	–
FIT Electronic Inc.	USA, limited liability company	Sale, research and development of interconnect solutions and related products in the USA	USD500,000	**100**	100	**–**	–
In-Output Precision Industrial Ltd.	British Virgin Islands, limited liability company	Consolidation and allocation of purchase orders in British Virgin Islands	USD1	**100**	100	**–**	–
Grand Occasion International Ltd.	British Virgin Islands, limited liability company	Investment holding in British Virgin Islands	USD65,200,400	**100**	100	**–**	–
Best Gold Trading Ltd.	British Virgin Islands, limited liability company	Investment holding in British Virgin Islands	USD55,588,000	**100**	100	**–**	–
Foxconn Interconnect Technology Japan Co Ltd.	Japan, limited liability company	Sale of interconnect solutions and related products in Japan	Japanese Yen ("JPY") 10,000,000	**100**	100	**–**	–

18 Interests in subsidiaries (continued)

Name of entity	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest held by the Group 2019 %	Ownership interest held by the Group 2018 %	Ownership interest held by non-controlling interests 2019 %	Ownership interest held by non-controlling interests 2018 %
Foxteq (UK) Ltd.	United Kingdom, limited liability company	Sale of interconnect solutions and related products in the UK	Great British Pound ("GBP") 100,000	**100**	100	**–**	–
Foxconn Korea Ltd.	Korea, limited liability company	Sale of interconnect solutions and related products in Korea	USD780,000	**100**	100	**–**	–
Foxconn Optical Interconnect Technologies Singapore Pte. Ltd.	Singapore, limited liability company	Sale of interconnect solutions and related products in Singapore	USD88,000,000	**100**	100	**–**	–
FIT Optoelectronica de Mexico S. De Mexico S. de R.L. de C.V.	Mexico, limited liability company	Production of interconnect solutions and related products in Mexico	Mexican Peso 10,095,897	**100**	100	**–**	–
Foxconn Optical Interconnect Technologies Inc.	USA, limited liability company	Sale, research and development of interconnect solutions and related products in the USA	USD1,500,000	**100**	100	**–**	–
FIT Electronics Device Pte. Ltd.	Singapore, limited liability company	Production, research and development of automotive cameras and electronic mirrors	USD28,173,000	**51**	51	**49**	49
深圳安亞貿易有限公司("An Ya Trading (Shenzhen) Co., Ltd.")*	PRC, limited liability company	Sale of interconnect solutions and related products in PRC	RMB1,000,000	**100**	100	**–**	–
New Wing Interconnect Technology (Bac Giang) Co., Ltd	Vietnam, limited liability company	Production of interconnect solutions and related products in Vietnam	Vietnam Dong ("VND") 1,802,100,000	**100**	100	**–**	–
Retrofit One Limited Partnership	Cayman Islands, limited liability company	Investment holding	3,800,001 ordinary shares of USD1 each	**100**	100	**–**	–
XingFox Cayman	Cayman Islands, limited liability company	Research and development and manufacturing of batteries	2,478,185 ordinary shares of USD1 each	**100**	100	**–**	–
Belkin International, Inc.	USA, corporation	Sale of consumer electronics and connectivity solutions products in North America	93,667 shares of USD0.0001 each	**100**	100	**–**	–
Belkin, Inc.	USA, corporation	Sale of consumer electronics and connectivity solutions products in North America	10,000 shares of USD0.0001 each	**100**	100	**–**	–

18 Interests in subsidiaries (continued)

Name of entity	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest held by the Group 2019 %	Ownership interest held by the Group 2018 %	Ownership interest held by non-controlling interests 2019 %	Ownership interest held by non-controlling interests 2018 %
Belkin Limited	UK, limited liability company	Sale of consumer electronics and connectivity solutions products in EMEA.	2,010,000 shares of GBP 1 each	**100**	100	**–**	–
Belkin Limited	Australia, limited liability company	Sale of consumer electronics and connectivity solutions products Australia	7,100,000 shares of Australian dollar 1 each	**100**	100	**–**	–
Belkin KK	Japan, corporation	Sale of consumer electronics and connectivity solutions products in Japan	JPY 10,000,000	**100**	100	**–**	–
Belkin B.V.	Netherlands, corporation	Investment holding	EURO ("EUR") 20,000	**100**	100	**–**	–
Belkin Hong Kong Limited	Hong Kong, limited liability company	Sourcing center in Asia Pacific	2 shares of HKD1,200,000	**100**	100	**–**	–
Belkin Asia Pacific Limited Ltd.	Hong Kong, limited liability company	Sale of consumer electronics and connectivity solutions products in Asia Pacific	USD99,851	**100**	100	**–**	–
貝爾金電器(常州)有限公司("Belkin Electronics (Changzhou) Co, Ltd")	PRC, limited liability company	Production of interconnect solutions and related products in PRC	USD1,425,000	**100**	100	**–**	–
Linksys Pte. Ltd.	Singapore, limited liability company	Sale of consumer electronics and connectivity solutions products in Singapore	USD17,033,794	**100**	100	**–**	–
Hong Yang Intelligent Technology Co., Ltd.	Taiwan, limited liability company	Manufacturing of metal processing machinery and equipment	USD800,000	**70**	70	**30**	30
FIT-CHB Holdco, Inc.	Cayman Islands, Limited liability Company	Sales of smart home products in Taiwan	USD3,229,811	**100**	–	**–**	–

* English translation for identification purpose only

19 Interests in associates and a joint venture

	2019 USD'000	2018 USD'000
Associates	**20,710**	6,199
A joint venture	**–**	–
	21,710	6,199

(a) Associates

	2019 USD'000	2018 USD'000
At beginning of the year	**6,199**	6,546
Transfer from financial assets at fair value through other comprehensive income	**6,275**	–
Additions	**9,500**	–
Share of results	**(264)**	(107)
Transfer to interests in subsidiaries	**–**	(240)
At end of the year	**21,710**	6,199

Set out below are the particulars of the associates of the Group as at December 31, 2019 and 2018.

Name of entity	Place of incorporation	% of ownership interest as at December 31, 2019	% of ownership interest as at December 31, 2018	Nature of business	Carrying amount 2019 USD'000	Carrying amount 2018 USD'000
Blu-castle, S.A.	Luxembourg	**35.00%**	35.00%	Supply of telecommunication equipment and software	**2,124**	1,970
Prenosis Inc.	United States of America	**25.51%**	25.51%	Development of health care related solution	**3,964**	4,229
Origin Wireless Inc. ("Origin Wireless") (Note a)	United States of America	**17.32% (Note (i))**	–	Development of advanced wireless sensing technologies for a wide range of applications	**12,896**	–
Kantatsu Co., Ltd. ("Kantatsu") (Note 35(a)(xii))	Japan	**4.60% (Note (ii))**	–	Manufacturing and design of high magnification micro-lends in smartphone, automotive, medical and industrial application	**2,726**	–

19 Interests in associates and a joint venture (continued)

(a) Associates (continued)

Notes:

(i) During the year ended December 31, 2019, the Group entered into an investment agreement to subscribe and invest in preferred shares, newly issued by Origin Wireless for USD9,500,000. Under the investment agreement, the Group is entitled to appoints 2 directors to the Board of directors of Origin Wireless.

Accordingly, the Group has significant influence over the investee and has recognized the investment as interest in an associate.

(ii) In January 2019, the Group acquired 4.6% of Kantatsu's issued common shares from a third party and initially classified them as financial assets at fair value through other comprehensive income on the date of acquisition. Subsequently, the Group acquired certain issued preferred shares of Kantatsu from a related company, Sharp Corporation, for a cash consideration of USD54,226,000. The preferred shares carry fixed coupon and are redeemable for cash or common shares at the discretion of the holder but they do not carry any voting rights. Accordingly, these preferred shares have been accounted for financial assets at fair value through profit and loss (Note 23). Under the terms of preferred shares, the holder is entitled to appoint 2 directors to the Board of directors of Kantatsu. Accordingly, the Group has significant influence over the investee and has recognized the common shares of Kantatsu as interest in an associate.

(b) A joint venture

	2019 USD'000	2018 USD'000
At beginning of the year	**–**	–
Additions	**1,500**	–
Share of results	**(1,500)**	–
At end of the year	**–**	–

Name of entity	Place of incorporation	% of ownership interest as at **December 31, 2019**	December 31, 2018	Nature of business	Carrying amount **2019 USD'000**	2018 USD'000
Phyn (Note (i))	United States of America	**50%**	50%	Provisions of solution for safe drinking water delivery, energy-efficient radiant heating and cooling, and reliable infrastructure	**-**	–

19 Interests in associates and a joint venture (continued)

(b) A joint venture (continued)

All the associates and a joint venture are private companies.

Notes:

(i) During the year ended December 31, 2019, the Group entered into an investment agreement with the joint venture partner in which each of the parties committed to contribute USD6,000,000 in Phyn. The Group paid cash contribution of USD1,500,000 into Phyn for the year ended December 31, 2019.

(ii) There were no other significant contingent liabilities and capital commitment relating to the Group's interests in associates and a joint venture.

20 Financial assets at fair value through other comprehensive income

	2019 USD'000	2018 USD'000
At beginning of the year	**17,102**	10,378
Additions	**3,343**	8,253
Transfer to interest in associates	**(6,275)**	–
Fair value adjustment	**3,524**	(1,529)
	17,694	17,102

The financial assets at fair value through other comprehensive income represent the Group's investments in private companies.

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

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

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

(ii) Financial assets at fair value through other comprehensive income

As at December 31, 2019, the analysis of financial assets through other comprehensive income by geographical areas is as follows:

	2019	2018
	USD'000	USD'000
Non-current assets		
Equity investments in other entities		
United States of America	**13,000**	13,555
France	**2,826**	2,826
Taiwan	**1,151**	721
The PRC	**717**	–
	17,694	17,102

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

Financial assets at fair value through other comprehensive income are denominated in the following currencies:

	2019	2018
	USD'000	USD'000
USD	**13,000**	13,555
EUR	**2,826**	2,826
NTD	**1,151**	721
RMB	**717**	–
	17,694	17,102

21 Deferred income tax assets and liabilities

	2019 USD'000	2018 USD'000
Deferred income tax assets:		
– to be recovered after 12 months	**114,931**	108,786
Deferred income tax liabilities:		
– to be recovered after 12 months	**(60,995)**	(75,023)

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

Deferred income tax assets

	Tax losses USD'000	Foreign tax credit USD'000	Research and development credit USD'000	Unrealized profits USD'000	Impairment provision USD'000	Decelerated tax depreciation USD'000	Provision for employee benefits USD'000	Others USD'000	Total USD'000
As at January 1, 2018	–	–	–	3,368	2,464	4,387	18,019	–	28,238
Acquisition of subsidiaries	9,898	14,902	17,458	–	3,923	1,504	6,439	7,193	61,317
Recognized in the consolidated income statement (Note 12)	2,050	100	609	1,383	(72)	11,198	3,047	916	19,231
At December 31, 2018	11,948	15,002	18,067	4,751	6,315	17,089	27,505	8,109	108,786
Recognized in the consolidated income statement (Note 12)	9,367	2,103	6,467	(2,982)	863	(4,251)	(4,201)	(1,221)	6,145
At December 31, 2019	**21,315**	**17,105**	**24,534**	**1,769**	**7,178**	**12,838**	**23,304**	**6,888**	**114,931**

21 Deferred income tax assets and liabilities (continued)

Deferred income tax liabilities

	Accelerated tax depreciation USD'000	Fair value adjustment on non-current assets arising from acquisition USD'000	Total USD'000
As at January 1, 2018	(1,213)	–	(1,213)
Recognized in the consolidated income statement (Note 12)	7	7,463	7,470
Acquisition of subsidiaries	–	(81,280)	(81,280)
At December 31, 2018	(1,206)	(73,817)	(75,023)
Recognized in the consolidated income statement (Note 12)	1,206	12,822	14,028
At December 31, 2019	**–**	**(60,995)**	**(60,995)**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC. As at December 31, 2019, deferred income tax liabilities of approximately USD67,451,000 (2018: approximately USD58,635,000) has not been recognized for the withholding tax that would be payable on the remittance of earnings of PRC subsidiaries. The related unremitted earnings amounted to approximately USD671,451,000 as at December 31, 2019 (2018: approximately USD586,354,000), and the Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Company in the foreseeable future.

Deferred income tax assets are recognized for tax loss carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable. As at December 31, 2019, the Group do not have unrecognized deferred income tax assets (2018: The Group has unrecognised deferred income tax assets of approximately USD361,000 in respect of tax losses of approximately USD1,588,000, that can be carried forward against future taxable income and the losses are subject to expiry period of five years).

22 Inventories

	2019 USD'000	2018 USD'000
Raw materials	**198,068**	156,375
Work in progress	**95,262**	97,027
Finished goods	**434,342**	424,886
	727,672	678,288
Less: provision for impairment	**(25,085)**	(28,580)
	702,587	649,708

The cost of inventories recognized as expenses and included in "cost of sales" amounted to approximately USD2,328,827,000 for the year ended December 31, 2019 (2018: approximately USD2,109,284,000) respectively, including reversal of provision for impairment of inventories amounted to approximately USD3,495,000 for the year ended December 31, 2019 (2018: provision for impairment of inventories amounted to approximately USD276,000).

23 Financial assets at fair value through profit or loss

	2019 USD'000	2018 USD'000
Non-current assets		
Unlisted debt instruments - Kantatsu (Note 19(a)(ii))	**54,552**	–
Unlisted debt instruments - others	**1,283**	
Unlisted securities	**1,122**	–
	56,957	–
Current assets		
Currencies forward contracts (Note)	**6,886**	441
Listed securities	**–**	706
	6,886	1,147

23 Financial assets at fair value through profit or loss (continued)

Note:

The aggregate notional principal amount of outstanding currency forward contracts as at December 31, 2019 was USD851,870,000 (2018: USD160,000,000). The maturity date of these currency forward contracts are before March 2020 (2018: June 2019). They are presented as current assets or liabilities if they are expected to be settled within 12 months after the consolidated balance sheet date.

The Group's currency forward contracts and equity investments are measured at fair value with reference to the market value.

24 Trade receivables, deposit, prepayments and other receivables

	2019 USD'000	2018 USD'000
Trade receivables due from third parties	**673,711**	620,623
Trade receivables due from related parties (Note 35(b))	**258,194**	317,413
Less: loss allowance for impairment of trade receivables	**(1,682)**	(2,901)
Total trade receivables – Net	**930,223**	935,135
Deposits and prepayments	**48,945**	48,836
Other receivables	**11,805**	20,027
Amounts due from related parties (Note 35(b))	**5,690**	4,586
Value-added tax receivable and recoverable	**27,979**	36,532
	1,024,642	1,045,116
Less: non-current portion		
– Deposits and prepayments	**(17,973)**	(14,409)
Current portion	**1,006,669**	1,030,707

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

As at December 31, 2019, the carrying amounts of trade and other receivables of the Group, except for the prepaid expenses and value-added tax recoverable which are not financial assets, approximated their fair values.

24 Trade receivables, deposit, prepayments and other receivables (continued)

As at December 31, 2019, the carrying amounts of trade receivables, deposits, prepayments and other receivables are denominated in the following currencies:

	2019 USD'000	2018 USD'000
RMB	47,112	60,701
USD	937,521	935,766
NTD	14,640	16,138
GBP	6,735	11,550
Others	20,316	23,862
	1,026,324	1,048,017

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 for impairment, as at December 31, 2019, is as follows:

	2019 USD'000	2018 USD'000
Trade receivables – gross		
– Within 3 months	823,827	798,063
– 3 to 4 months	74,537	116,433
– 4 to 6 months	28,975	21,225
– 6 to 12 months	2,904	2,170
– Over 1 year	1,662	145
	931,905	938,036

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

24 Trade receivables, deposit, prepayments and other receivables (continued)

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

	2019 USD'000	2018 USD'000
At beginning of the year	2,901	–
(Reversal)/recognition of loss allowance for impairment of trade receivables	(1,219)	1,697
Acquisition of subsidiaries	–	1,204
	1,682	2,901

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

25 Finance lease receivables

The lease receivables are set out below:

	Minimum lease payments		Present value of minimum lease payment	
	2019 USD'000	2018 USD'000	2019 USD'000	2018 USD'000
Finance lease receivables comprise:				
Within one year	16,564	–	15,645	–
In two to fifth years, inclusive	64,775	–	62,452	–
	81,339	–	78,097	–
Less: unearned finance income	(3,242)	–		
Total net finance lease receivables	78,097	–		
Analysis for reporting purpose as:				
Current assets	15,645	–		
Non-current assets	62,452	–		
	78,097	–		

25 Finance lease receivables (continued)

Interest rates of the above finance lease receivables approximate to the market borrowing rate. Finance lease receivables are denominated in USD.

During the year ended December 31, 2019, the Group entered into a lease agreement with a third party whereas the Group leased out its property, plant and equipment with carrying values amounted to approximately USD81,339,000 for a term of five years. The sum of lease payments is fixed and approximates the carrying values of the leased assets.

26 Cash and cash equivalents and short-term bank deposits

	2019 **USD'000**	2018 USD'000
Cash and cash equivalents	**892,111**	1,064,824
Short-term bank deposits	**118,011**	6,424
	1,010,122	1,071,248

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

	2019 **USD'000**	2018 USD'000
– RMB	**219,447**	321,342
– USD	**657,008**	707,116
– JPY	**5,750**	22,240
– NTD	**7,998**	7,664
– GBP	**7,789**	2,660
– VND	**96,737**	1,070
– EUR	**4,831**	2,436
– Others	**10,562**	6,720
	1,010,122	1,071,248

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

As at December 31, 2019, the Group's bank balances of approximately USD445,582,000 and USD96,737,000 (2018: approximately USD506,889,000 deposited in with banks in the PRC) were deposited with banks in the PRC and Vietnam. The remittance of these funds out of the PRC and Vietnam is subject to the rules and regulations of foreign exchange control promulgated by the governments in the PRC and Vietnam.

As at December 31, 2019, bank deposits of US$2,121,000 were pledged as customs guarantee (December 31, 2018: US$5,387,000).

27 Share capital

	Number of ordinary shares (in thousand)	Amount USD'000
Authorized:		
As at January 1, 2018, December 31, 2018, January 1, 2019 and December 31, 2019	15,360,000	300,000
Issued and fully paid:		
As at January 1, 2018	6,733,855	131,521
Issuance of ordinary shares upon exercise of share option	9,581	187
As at December 31, 2018 and January 1, 2019	**6,743,436**	**131,708**
Issuance of ordinary shares upon exercise of share option	**621**	**12**
Issuance of ordinary shares upon exercise of share option	**137,230**	**2,680**
As at December 31, 2019	**6,881,287**	**134,400**

28 Reserves

	Share premium and capital reserve USD'000	Statutory reserves USD'000	Share-based payments reserve USD'000	Currency translation differences USD'000	Revaluation reserve USD'000	Sub-total USD'000	Retained earnings USD'000	Total USD'000
			Other reserves					
At January 1, 2018	515,508	55,650	99,806	48,131	(929)	202,658	1,044,187	1,762,353
Profit for the year	–	–	–	–	–	–	233,946	233,946
Exercise of share grant plan	3,368	–	(3,553)	–	–	(3,553)	–	(185)
Exercise of share option scheme	70	–	(23)	–	–	(23)	–	47
Dividends paid (Note 14)	–	–	–	–	–	–	(46,817)	(46,817)
Appropriation from retained earnings	–	4,223	–	–	–	4,223	(4,223)	–
Senior management restricted share plan	–	–	11,806	–	–	11,806	–	11,806
Share option scheme	–	–	5,401	–	–	5,401	–	5,401
Exchange difference arising on the translation of foreign operations	–	–	–	(90,080)	–	(90,080)	–	(90,080)
Fair value change in financial assets at fair value through other comprehensive income	–	–	–	–	(1,529)	(1,529)	–	(1,529)
At December 31, 2018	518,946	59,873	113,437	(41,949)	(2,458)	128,903	1,227,093	1,874,942
At January 1, 2019	**518,946**	**59,873**	**113,437**	**(41,949)**	**(2,458)**	**128,903**	**1,227,093**	**1,874,942**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**235,414**	**235,414**
Exercise of share grant plan	**31,198**	**–**	**(33,878)**	**–**	**–**	**(33,878)**	**–**	**(2,680)**
Exercise of share option scheme	**420**	**–**	**(136)**	**–**	**–**	**(136)**	**–**	**284**
Dividends paid (Note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**(58,741)**	**(58,741)**
Appropriation from retained earnings	**–**	**3,793**	**–**	**–**	**–**	**3,793**	**(3,793)**	**–**
Senior management restricted share plan	**–**	**–**	**6,272**	**–**	**–**	**6,272**	**–**	**6,272**
Share option scheme	**–**	**–**	**3,742**	**–**	**–**	**3,742**	**–**	**3,742**
Currency translation differences	**–**	**–**	**–**	**(37,480)**	**–**	**(37,480)**	**–**	**(37,480)**
Fair value change in financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**3,524**	**3,524**	**–**	**3,524**
At December 31, 2019	**550,564**	**63,666**	**89,437**	**(79,429)**	**1,066**	**74,740**	**1,399,973**	**2,025,277**

29 Bank borrowings

	2019 USD'000	2018 USD'000
Bank borrowings, unsecured	**1,067,722**	989,401

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

	2019 USD'000	2018 USD'000
RMB	**–**	1,456
USD	**977,662**	870,106
NTD	**90,060**	117,839
	1,067,722	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:

	2019 USD'000	2018 USD'000
Within one year	**493,546**	989,401
One to five years	**574,176**	–
	1,067,722	989,401

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

	2019 USD'000	2018 USD'000
Bank borrowings, unsecured	**2.41%**	2.74%

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

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

30 Trade and other payables

	2019 USD'000	2018 USD'000
Trade payables to third parties	**527,394**	460,174
Trade payables to related parties (Note 35(b))	**164,104**	261,915
Total trade payables	**691,498**	722,089
Amounts due to related parties (Note 35(b))	**78,590**	109,411
Staff salaries, bonuses and welfare payables	**110,999**	120,716
Deposits received, other payables and accruals	**215,127**	256,790
	1,096,214	1,209,006
Less: Non-current portion	**(9,751)**	(18,307)
Current portion	**1,086,463**	1,190,699

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

As at December 31, 2019, all trade and other payables of the Group were non-interest bearing, and their carrying amounts approximated their fair values due to short maturities.

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

	2019 USD'000	2018 USD'000
RMB	**285,737**	299,454
USD	**750,428**	833,275
NTD	**10,986**	10,308
Others	**49,063**	65,969
	1,096,214	1,209,006

30 Trade and other payables (continued)

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

	2019 USD'000	2018 USD'000
Within 3 months	**579,691**	558,571
3 to 4 months	**63,911**	64,257
4 to 6 months	**37,378**	44,870
6 to 12 months	**9,913**	51,483
Over 1 year	**605**	2,908
	691,498	722,089

31 Share-based payments

During the years ended December 31, 2019 and 2018, the Group has four share-based compensation schemes.

	2019 USD'000	2018 USD'000
Senior management share grant scheme (Note(a))	**6,647**	9,334
Employees' share restricted share scheme (Note(b))	**(375)**	2,471
Share option scheme (Note(c))	**3,742**	5,402
Share award scheme (Note(d))	**4,722**	1,429
Total	**14,736**	18,636

31 Share-based payments (continued)

(a) Senior management share grant scheme

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

The weighted average fair value of shares granted under this plan determined using the H-model was approximately USD3.95 per share before the split of each of then existing ordinary share of the Company into 16 shares pursuant to a shareholder's resolution passed on 3 November 2016. The significant inputs into the model were weighted average cost of capital of approximately 13.4%, perpetuity growth rate of 3%, discount for lack of marketability of 20% and control premium of 20%. The volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices of comparable companies in the market.

The share-based payment expenses incurred for this plan for the year ended December 31, 2019 was approximately USD6,647,000 (2018: approximately USD9,334,000).

(b) Employees' share restricted share scheme

4,101,500 restricted shares issued to employees by the Company in January 2016 were measured at the fair value on the grant date and recognized as compensation cost over the vesting period. The grantees do not need to pay to acquire those shares. Issuance of shares is based on grantees' service periods and certain performance indications. Shares will be vested from December 31, 2017 in accordance with the number of the grantees shares on every December 31 at 25% over the 4-year period, subject to performance related adjustment.

The weighted average fair value of shares granted determined using the market approach was USD6 per share before the split of each of then existing ordinary share of the Company into 16 shares pursuant to a shareholder's resolution passed on 3 November 2016. The significant input applied in this approach was price/earnings ratio of 13.5.

Certain employees left and forfeited the share, the reversal of the share-based payment expense for this plan for the year ended December 31, 2019 was approximately USD375,000 (2018: the share-based payment expense incurred for approximately USD2,471,000).

31 Share-based payments (continued)

(c) Share option scheme

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

At the initial date of grant, the fair value of the Options determined using the Black-Scholes model was USD3,860,000. The significant inputs into the model were dividend paid out ratio of 0.89% and the expected volatility. The expected volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices of comparable companies in the market.

The increment of fair value related to the modification under New Options determined using the Black-Scholes model was USD1,500,000. The significant inputs into the model were dividend paid out ratio of 0.89% and the expected volatility. The expected volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices of comparable companies in the market.

The share-based payment expenses was fully vested during the year ended December 31, 2018. No share-based payment incurred under this share option scheme for the year ended December 31, 2019 (2018: approximately USD5,360,000).

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

In the 41,763,000 share options granted, 10,000,000 options will be vested on December 31, 2019, 183,000 option 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.

31 Share-based payments (continued)

(c) Share option scheme (continued)

The fair value of the options determined using the Black-Scholes model was approximately USD6,139,000. The significant inputs into the model were dividend paid out ratio of 1.64% and the expected volatility. The expected volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices of comparable companies in the market.

The share-based payment expenses incurred under this transaction for the year ended December 31, 2019 were approximately USD3,742,000 (2018: approximately USD42,000).

(d) Share award scheme (Treasury shares)

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

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

Subject to any early termination as may be determined by the board, the share award scheme shall be valid and effective for a period of 10 years commencing on December 19, 2017.

For the year ended December 31, 2019, 51,841,000 treasury shares (2018: 161,801,000 treasury shares) were purchased on the market under the share award scheme at consideration of approximately USD20,430,000 (2018: approximately USD73,501,000). The Group awarded 2,153,000 treasury shares to eligible employees (2018: 2,847,000 treasury shares) and the share-based payments expense of approximately USD895,000 was recognized for the year (2018: approximately USD1,429,000).

31 Share-based payments (continued)

(d) Share award scheme (Treasury shares) (continued)

On March 26, 2019, the Company adopted the second restricted share award scheme (the "Second 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 year ended December 31, 2019, 12,483,000 treasury shares (2018: Nil) were purchased on the market under the second restricted share award scheme at consideration of approximately USD5,150,000 (2018: Nil). The Group awarded 10,830,000 treasury shares (2018: Nil) to eligible employees and the share-based payments expense of approximately USD3,827,000 was recognized (2018: Nil).

32 Cash generated from operations

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

	2019 USD'000	2018 USD'000
Profit before income tax	**265,910**	311,362
Adjustments for:		
– Amortization of intangible assets (Note 17)	**44,324**	13,811
– Amortization of land use rights (Note 15)	**–**	588
– Depreciation of property, plant and equipment (Note 16(a))	**183,155**	186,776
– Depreciation of right-of-use assets (Note 16(b))	**27,480**	–
– Losses on disposal of intangible assets	**210**	–
– Losses/(gains) on disposal of property, plant and equipment, net (Note (b))	**2,717**	(1,913)
– (Decrease)/increase of impairment of inventories	**(3,495)**	276
– (Reversal)/recognition of impairment losses on financial assets – net	**(1,219)**	1,697
– Impairment of intangible assets	**1,399**	–
– Impairment of goodwill	**3,075**	–
– Interest income	**(21,837)**	(16,242)
– Interest expenses	**29,333**	14,320
– Share of results of an associate and a joint venture — net	**1,764**	107
– Fair value gains from revaluation of interests in an associate upon acquisition as a subsidiary	**–**	133
– Changes in fair value of financial assets at fair value through profit or loss	**7,787**	5,128
– Shares vested under share award scheme	**–**	1,429
– Share based payment expenses (Note 31)	**14,736**	17,207
Changes in working capital:		
– Inventories	**(41,933)**	35,980
– Trade and other receivables	**18,381**	110,995
– Trade and other payables, including contract liabilities	**(136,439)**	91,644
– Other non-current liabilities	**(8,556)**	9,663
Cash generated from operations	**386,792**	782,961

32 Cash generated from operations (continued)

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

	2019 USD'000	2018 USD'000
Net book amount	**94,952**	6,476
(Losses)/gains on disposal of property, plant and equipment	**(2,717)**	1,913
	92,235	8,389
Less: finance lease receivable	**(79,242)**	–
Proceeds from disposal	**12,993**	8,389

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt during the year ended December 31, 2019.

	2019 USD'000	2018 USD'000
Cash and cash equivalents	**892,111**	1,064,824
Borrowings	**(1,067,722)**	(989,401)
Lease liabilities	**(38,971)**	–
Net (debts)/cash resources	**(214,582)**	75,423
Cash and cash equivalents	**892,111**	1,064,824
Gross debts – variable interest rates	**(1,067,722)**	(989,401)
Gross debts – fixed interest rates	**(38,971)**	–
Net (debts)/cash resources	**(214,582)**	75,423

32 Cash generated from operations (continued)

(c) Net debt reconciliation (continued)

	Gross debts due within 1 year USD'000	Gross debts due after 1 year USD'000
At January 1, 2018	(296,127)	–
Cash flows	(693,962)	–
Effect on exchange difference arising on the translation of foreign operations	688	–
At December 31, 2018 and January 1, 2019	(989,401)	–
Recognised on adoption of IFRS 16 (see note 2.2)	(17,723)	(36,319)
	(1,007,124)	(36,319)
Cash flows	527,016	(574,176)
Acquisition of leases	(13,688)	(2,652)
Reclassification	(16,389)	16,389
Effect on exchange difference arising on the translation of foreign operations	250	–
At December 31, 2019	**(509,935)**	**(596,758)**

33 Commitments

(a) Capital commitments

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

	2019 USD'000	2018 USD'000
– Investments	**21,596**	9,445
– Property, plant and equipment	**39,287**	2,026
– Right-of-use assets	**731**	–
	61,614	11,471

33 Commitments (continued)

(b) Operating leases rental receivables – the Group as lessor

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

	2019 USD'000	2018 USD'000
No later than 1 year	**94**	372
Later than 1 year and no later than 2 years	**59**	138
Later than 2 years and no later than 5 years	**23**	–
	176	510

34 Business Combination

(a) In September 2018, the Company acquired 150,000 shares of Belkin, a company incorporated in the United State of America, representing the entire issued share capital of Belkin.

Belkin is specialized in the consumer electronics products such as mobile phone accessories, desktop connectivity, home automation solution and related products. The goodwill of approximately USD441,509,000 (Note 17) arising from the acquisition is attributable to the synergies expected from leveraging the Group's manufacturing expertise to produce more competitive products, Belkin's established sales network and R&D capabilities to develop "smart home" business, and complementing the Group's existing interconnect solutions and other products offered to customers.

34 Business Combination (continued)

(a) (continued)

The Group engaged an independent professional valuer to perform purchase price allocation exercise with reference to the business valuation using discounted cash flows forecast and market value approach. The recognized amounts of identifiable assets acquired and liabilities assumed are summarized as follows:

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

34 Business Combination (continued)

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

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

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

34 Business Combination (continued)

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

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

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

35 Related-party transactions

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

In addition to those disclosed elsewhere in the Financial Information, the following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended December 31, 2019 and 2018 and balances arising from related party transactions as at December 31, 2019 and 2018.

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

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

* for identification purpose only

35 Related-party transactions (continued)

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

		2019 USD'000	2018 USD'000
(i)	Sales of goods		
	– Subsidiaries of Hon Hai	**649,906**	837,324
	– Hon Hai	**9,301**	9,158
	– Associates of Hon Hai	**181,861**	215,884
		841,068	1,062,366
(ii)	Sales of services		
	– Subsidiaries of Hon Hai	**947**	980
	– Hon Hai	**–**	3
	– Associates of Hon Hai	**1,519**	284
		2,466	1,267
(iii)	Purchase of goods		
	– Subsidiaries of Hon Hai	**424,984**	372,995
	– Associates of Hon Hai	**156,277**	177,810
	– Hon Hai	**12,997**	34,086
		594,258	584,891
(iv)	Purchase of property, plant and equipment and right-of-use assets		
	– Subsidiaries of Hon Hai	**4,265**	2,148
	– Associates of Hon Hai	**25,775**	2,104
	– Hon Hai	**34**	1,514
		30,074	5,766

35 Related-party transactions (continued)

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

	2019 USD'000	2018 USD'000
(v) Subcontracting expenses		
– Subsidiaries of Hon Hai	**82,876**	105,539
– Associates of Hon Hai	**164**	413
– Hon Hai	**12**	6
	83,052	105,958
(vi) Shared services expenses		
– Subsidiaries of Hon Hai	**2,380**	3,107
– Associates of Hon Hai	**430**	572
– Hon Hai	**89**	200
	2,899	3,879
(vii) Molding costs		
– Subsidiaries of Hon Hai	**67,131**	65,855
– Associates of Hon Hai	**1,575**	271
– Hon Hai	**4**	9
	68,710	66,135
(viii) Rental income		
– Subsidiaries of Hon Hai	**1,203**	1,085
– Associates of Hon Hai	**1,373**	1,115
	2,576	2,200
(ix) Payments for lease contracts		
– Subsidiaries of Hon Hai	**3,792**	2,782
– Hon Hai	**885**	811
– Associates of Hon Hai	**82**	1,543
	4,759	5,136

35 Related-party transactions (continued)

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

		2019 USD'000	2018 USD'000
(x)	Payments for licenses		
	– Hon Hai	**1,270**	1,648
	– Associates of Hon Hai	**–**	13,805
		1,270	15,453
(xi)	Disposal of property, plant and equipment		
	– Subsidiaries of Hon Hai	**586**	597
	– Associates of Hon Hai	**989**	2,377
		1,575	2,974
(xii)	Acquisition of preferred shares		
	– An associate of Hon Hai (Note 18(a)(ii))	**54,226**	–
(xiii)	**Key management compensation**		
	Salaries, wages and bonuses	**10,315**	12,815
	Pension, housing fund, medical insurance and other social insurances	**196**	306
	Share-based payment expenses	**12,256**	17,886
		22,767	31,007

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

35 Related-party transactions (continued)

(b) Balances with related parties:

	2019 USD'000	2018 USD'000
Amounts due from related parties:		
(i) Trade receivables:		
– Subsidiaries of Hon Hai	**188,138**	238,521
– Associates of Hon Hai	**67,309**	77,177
– Hon Hai	**2,747**	1,715
	258,194	317,413
(ii) Other receivables:		
– Subsidiaries of Hon Hai	**5,523**	3,346
– Associates of Hon Hai	**167**	1,240
	5,690	4,586
(iii) Prepayments:		
– Subsidiaries of Hon Hai	**4,092**	6,319
– Associates of Hon Hai	**12,553**	7,811
	16,645	14,130

35 Related-party transactions (continued)

(b) Balances with related parties: (continued)

Amounts due to related parties:

	2019 USD'000	2018 USD'000
(i) Trade payables:		
– Subsidiaries of Hon Hai	**123,681**	207,579
– Associates of Hon Hai	**38,944**	54,089
– Hon Hai	**1,479**	247
	164,104	261,915
(ii) Other payables:		
– Subsidiaries of Hon Hai	**65,349**	106,721
– Associates of Hon Hai	**13,107**	2,277
– Hon Hai	**134**	413
	78,590	109,411
(iii) Payable for acquisition of licenses:		
– Hon Hai	**5,190**	6,460

36 Contingencies

As at December 31, 2019, the Group involved in certain litigations as a defendant that have not been resolved. The Group do not expect that the outcome in any of the litigations would have a material adverse impact on the financial position or financial performance.

37 Events after the consolidated balance sheet date

(a) Outbreak of COVID-19

The outbreak of novel coronavirus (COVID-19) across the world was declared a pandemic by the World Health Organization on March 11, 2020 (the "**Epidemic**"). Multiple countries/cities have imposed different quarantine measures including the extension of Lunar New Year/Spring Festival holiday in China. The Group's manufacturing plants in China were suspended for operations as a result of extension of holidays and incurred certain redundant abnormal losses.

Though the Group's manufacturing plants have resumed to normal as of the date of this report, the impacts on the Group's export and sales of intermediate products and consumer products are yet to conclude. The Group is unable to estimate the impacts due to the uncertainties and unpredictability of duration of the Epidemic and the outcome and extent of Epidemic prevention measures.

Yet, the economy is undoubtedly and unavoidably impacted by the Epidemic and the Group expects the financial performance in the first quarter of 2020 to be unfavorable. Notwithstanding that, the Group does not foresee any material change in its exposures to credit risk and liquidity risk and its financial stability subsequent to the year ended December 31, 2019 as the Group has sound credit risk assessment policies and low gearing ratio.

38 Balance sheet and reserve movement of the Company

	Note	2019 USD'000	2018 USD'000
ASSETS			
Non-current assets			
Property, plant and equipment		**15,088**	20,155
Intangible assets		**12,930**	15,476
Interests in subsidiaries (Note 18)		**2,105,051**	2,041,811
Financial assets at fair value through other comprehensive income		**14,460**	14,586
Financial assets at fair value through profit or loss		**2,730**	–
Deferred income tax assets		**21,760**	35,810
Interests in associates		**21,710**	6,199
Deposits, prepayments and other receivables		**5,219**	4,514
		2,198,948	2,138,551
Current assets			
Inventories		**414,553**	336,008
Trade and other receivables		**878,637**	814,695
Financial assets at fair value through profit or loss		**6,545**	1,147
Cash and cash equivalents		**247,923**	327,714
		1,547,658	1,479,564
Total assets		**3,746,606**	3,618,115
EQUITY			
Equity attributable to owners of the Company			
Share capital		**134,400**	131,708
Treasury shares		**(92,930)**	(72,072)
Reserves	(a)	**1,544,091**	1,474,131
Total equity		**1,585,561**	1,533,767

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

	Note	2019 USD'000	2018 USD'000
LIABILITIES			
Non-current liability			
Deposits received and other payables		**805**	5,830
Borrowing		**574,176**	–
		574,981	5,830
Current liabilities			
Trade and other payables		**1,261,276**	1,209,304
Contract liabilities		**1,084**	–
Lease liabilities		**16,389**	–
Borrowings		**285,060**	827,839
Current income tax liabilities		**22,255**	41,375
		1,586,064	2,078,518
Total liabilities		**2,161,045**	2,084,348
Total equity and liabilities		**3,746,606**	3,618,115

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

(a) Reserve movement of the Company

	Retained earnings USD'000	Other reserves USD'000	Total USD'000
Balance as at January 1, 2018	375,820	1,169,922	1,545,742
Comprehensive income			
– Profit for the year	34,847	–	34,847
Other comprehensive income			
– Currency translation differences	–	(75,181)	(75,181)
– Fair value change in available-for-sale financial assets	–	(1,529)	(1,529)
Total comprehensive income/(loss) for the year	34,847	(76,710)	(41,863)
Transaction with owners			
– Exercise of share grant plan	–	(185)	(185)
– Exercise of share option	–	47	47
– Senior management and employees' share grant scheme and share award scheme	–	17,207	17,207
– Dividends paid	(46,817)	–	(46,817)
Total transactions with owners, recognized directly in equity	(46,817)	17,069	(29,748)
Balance at December 31, 2018	363,850	1,110,281	1,474,131

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

(a) Reserve movement of the Company (continued)

	Retained earnings USD'000	Other reserves USD'000	Total USD'000
Balance as at January 1, 2019	363,850	1,110,281	1,474,131
Comprehensive income			
– Profit for the year	133,007	–	133,007
Other comprehensive income			
– Currency translation differences	–	(15,448)	(15,448)
– Fair value change in financial assets at fair value through other comprehensive income	–	3,524	3,524
Total comprehensive income/(loss) for the year	133,007	(11,924)	121,083
Transaction with owners			
– Exercise of share grant plan	–	(2,680)	(2,680)
– Exercise of share option	–	284	284
– Senior management and employees' share grant scheme and share award scheme	–	10,014	10,014
– Dividends paid	(58,741)	–	(58,741)
Total transactions with owners, recognized directly in equity	(58,741)	7,618	(51,123)
Balance at December 31, 2019	438,116	1,105,975	1,544,091

Definitions

"AGM"	the forthcoming annual general meeting of the Company to be held on June 24, 2020;
"Articles of Association"	the articles of association of the Company;
"Audit Committee"	the audit committee of the Board;
"Board" or "Board of Directors"	the board of Directors of the Company;
"China" or "PRC"	the People's Republic of China; for the purpose of this Annual Report only, references to "China" or the "PRC" do not include Taiwan, the Macau Special Administrative Region and Hong Kong;
"Company"	FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司), a company incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as FIT Hon Teng Limited, the Shares of which are listed on the Main Board of the Stock Exchange;
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
"Director(s)"	director(s) of the Company;
"First Restricted Share Award Scheme"	the restricted share award scheme approved and adopted by the Company on January 31, 2018 and amended on May 15, 2018 (as restated, supplemented and amended from time to time);
"Group", "our Group", "we" or "us"	the Company and its subsidiaries;
"Hon Hai"	Hon Hai Precision Industry Co., Ltd. (鴻海精密工業股份有限公司), a limited liability company established in Taiwan and listed on the Taiwan Stock Exchange (Stock Code: 2317), which is the controlling shareholder of the Company;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"IFRSs"	International Financial Reporting Standards;
"IPO"	the initial public offering of Shares and listing of the Group on the Stock Exchange on July 13, 2017;

"Kantatsu"	Kantatsu Co., Ltd. (カンタツ株式会社), a limited liability company established in Japan;
"Latest Practicable Date"	April 21, 2020, being the latest practicable date prior to the printing of this Annual Report for the purpose of ascertaining certain information contained in this Annual Report;
"Listing Date"	the date on which dealings in the Shares first commenced on the Stock Exchange, i.e. July 13, 2017;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and supplemented from time to time;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
"Prospectus"	the prospectus dated June 29, 2017 issued by the Company;
"Remuneration Committee"	the remuneration committee of the Board;
"Restricted Share Award Schemes"	the First Restricted Share Award Scheme and the Second Restricted Share Award Scheme;
"RMB"	Renminbi, the lawful currency of the PRC;
"Second Restricted Share Award Scheme"	the restricted share award scheme approved and adopted by the Company on February 11, 2019 (as restated, supplemented and amended from time to time);
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) with nominal value of US$0.01953125 each in the issued capital of the Company or if there has been a subsequent sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company;
"Shareholder(s)"	holder(s) of the Share(s);

"Share Grant Scheme"	the share grant scheme approved and adopted by the Company on January 5, 2015, and the rules and interpretations thereof further adopted by the Board on November 4, 2016;
"Share Option Scheme"	the share option scheme conditionally approved and adopted by our Shareholders on December 19, 2017;
"Sharp Corporation"	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$" or "U.S. dollar(s)"	United States dollars, the lawful currency of the United States;
"Vietnam"	the Socialist Republic of Vietnam; and
"%"	percent.