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FIH Mobile Limited
富智康集團有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2038)

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2018 together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **US$'000**	2017 US$'000
Revenue	2	**14,929,903**	12,080,110
Cost of sales		**(15,013,909)**	(11,949,780)
Gross (loss) profit		**(84,006)**	130,330
Other income, gains and losses	3	**91,517**	217,250
Impairment loss recognised for available-for-sale investments		**–**	(202,503)
Impairment loss recognised for goodwill		**(79,435)**	–
Impairment loss recognised for interests in associates		**(84,820)**	–
Fair value loss of convertible notes	9	**(44,806)**	–
Selling expenses		**(123,346)**	(84,318)
General and administrative expenses		**(275,356)**	(374,548)
Research and development expenses		**(214,726)**	(160,829)
Interest expense on bank borrowings		**(27,705)**	(11,232)
Share of profit (loss) of associates		**3,085**	(8,694)
Share of loss of joint ventures		**(503)**	(1,014)
Loss before tax	4	**(840,101)**	(495,558)
Income tax expense	5	**(17,014)**	(29,836)
Loss for the year		**(857,115)**	(525,394)

	Note	**2018**	2017
		US$'000	*US$'000*
Other comprehensive (expenses) income:			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(32,417)**	–
Remeasurement of defined benefit pension plans		**304**	(104)
		(32,113)	(104)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(156,256)**	173,055
Fair value gain on available-for-sale investments		**–**	53,234
Share of translation reserve of associates		**2,439**	9,646
Share of translation reserve of joint ventures		**94**	267
Release upon partial disposal of available-for-sale investments		**–**	(14,279)
		(153,723)	221,923
Other comprehensive (expense) income for the year, net of income tax		**(185,836)**	221,819
Total comprehensive expense for the year		**(1,042,951)**	(303,575)
(Loss) profit for the year attributable to:			
Owners of the Company		**(857,121)**	(525,487)
Non-controlling interests		**6**	93
		(857,115)	(525,394)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(1,042,280)**	(304,062)
Non-controlling interests		**(671)**	487
		(1,042,951)	(303,575)
Loss per share	*7*		
Basic		**(US10.57 cents)**	(US6.61 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	**2018** **US$'000**	2017 US$'000
Non-current assets			
Property, plant and equipment		**1,002,393**	974,236
Investment properties		**4,747**	6,149
Prepaid lease payments		**47,809**	51,625
Goodwill	*8*	**–**	79,435
Intangible assets		**–**	10,158
Available-for-sale investments		**–**	190,187
Financial assets at fair value through profit or loss	*9*		
— Equity instruments		**13,082**	–
— Convertible notes		**–**	60,000
Financial assets at fair value through other comprehensive income	*10*		
— Equity instruments		**119,232**	–
Interests in associates	*11*	**20,972**	100,348
Interests in joint ventures		**2,390**	2,799
Deferred tax assets	*12*	**20,300**	43,932
Deposit for acquisition of prepaid lease payments		**27,785**	29,177
		1,258,710	1,548,046
Current assets			
Inventories		**1,400,388**	1,024,611
Trade and other receivables	*13*	**4,305,578**	3,776,603
Financial assets at fair value through profit or loss			
— Short-term investments	*9*	**454,421**	426,554
Bank deposits		**66,697**	31,964
Bank balances and cash		**1,418,569**	1,979,905
		7,645,653	7,239,637
Current liabilities			
Trade and other payables	*14*	**5,091,425**	4,644,463
Contract liabilities		**20,063**	–
Bank borrowings	*15*	**1,427,217**	712,600
Provision	*16*	**102,719**	96,896
Tax payable		**81,373**	125,036
		6,722,797	5,578,995
Net current assets		**922,856**	1,660,642
Total assets less current liabilities		**2,181,566**	3,208,688

	Notes	**2018**	2017
		US$'000	*US$'000*
Capital and reserves			
Share capital		**328,563**	323,739
Reserves		**1,815,779**	2,849,370
Equity attributable to owners of the Company		**2,144,342**	3,173,109
Non-controlling interests		**5,939**	6,610
Total equity		**2,150,281**	3,179,719
Non-current liabilities			
Deferred tax liabilities	*12*	**10,441**	5,362
Deferred income	*17*	**20,844**	23,607
		31,285	28,969
		2,181,566	3,208,688

Notes:

1. **APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")**

New and amendments to IFRSs that are mandatorily effective for the current year

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

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

IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the manufacturing services (including sales of goods, delivery service and processing service) and distribution income to its customers in connection with the production and distribution of handsets.

Information about the Group's performance obligations and accounting policies resulting from application of IFRS 15 will be disclosed in the Company's 2018 annual report (which is tentatively scheduled to be published and issued in April 2019).

Summary of effects arising from initial application of IFRS 15

There was no material impact of transition to IFRS 15 on retained profits at 1 January 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

Impacts on liabilities as at 1 January 2018

	Notes	**Carrying amount previously reported at 31 December 2017** *US$'000* (audited)	**Impacts of adopting IFRS 15** *US$'000*	**Carrying amount under IFRS 15 at 1 January 2018** *US$'000* (unaudited)
Trade and other payables	*a, b*	(4,644,463)	84,517	(4,559,946)
Contract liabilities	*a, b*	–	(84,517)	(84,517)

Notes:

(a) As at 1 January 2018, advances from customers of US$65,397,000 in respect of manufacturing and distribution contracts previously included in trade and other payables were reclassified to contract liabilities as the Group has obligation to transfer goods or services to its customers for which the Group has received consideration from the customer.

(b) As at 1 January 2018, deferred consideration of US$19,120,000 in relation to the investment in convertible notes of Mango International Group Limited ("Mango") previously included in trade and other payables were reclassified to contract liabilities as the Group has obligation to transfer goods to Mango.

There was no material impact of applying IFRS 15 on the Group's consolidated statement of profit or loss and other comprehensive income for the current year. The following tables summarise the impact of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impacts on liabilities as at 31 December 2018

	As reported *US$'000*	**Adjustments** *US$'000* (unaudited)	**Amounts without application of IFRS 15** *US$'000* (unaudited)
Trade and other payables	(5,091,425)	(20,063)	(5,111,488)
Contract liabilities	(20,063)	20,063	–

IFRS 9 "Financial Instruments"

In the current year, the Group has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of IFRS 9 will be disclosed in the Company's 2018 annual report (which is tentatively scheduled to be published and issued in April 2019).

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investments	Financial assets* designated at FVTPL^	Financial assets at FVTPL^ required by IFRS 9	Equity instruments at FVTOCI^	Amortised cost (previously classified as loans and receivables)	Revaluation reserve	Retained profits
		US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Closing balance at 31 December 2017 (audited) — IAS 39		190,187	486,554	–	–	5,591,980	86,388	1,204,626
Effect arising from initial application of IFRS 9:								
Reclassification								
From available-for-sale investments	*a*	(190,187)	–	107,273	82,914	–	(103,402)	103,402
From financial assets designated at FVTPL	*b*	–	(486,554)	486,554	–	–	–	–
Remeasurement								
From AFS at cost less impairment to financial assets at FVTOCI	*a*	–	–	–	905	–	905	–
Opening balance at 1 January 2018 (unaudited)		–	–	593,827	83,819	5,591,980	(16,109)	1,308,028

* Amounts represent convertible notes and short-term investments.

^ As defined in note a.

(a) Available-for-sale investments ("AFS")

From AFS equity investments to fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of certain equity investments previously classified as available-for-sale investments, of which US$73,334,000 related to unquoted equity investments previously measured at cost less impairment and US$9,580,000 related to listed equity investments previously measured at fair value under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. This results in US$82,914,000 included in AFS investments was reclassified to equity instruments at FVTOCI at the date of initial application of IFRS 9. The fair value gain of US$905,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and revaluation reserve as at 1 January 2018. The fair value gains of US$4,705,000 relating to those listed equity investments previously carried at fair value continued to accumulate in revaluation reserve. In addition, impairment losses previously recognised of US$26,593,000 were transferred from retained profits to revaluation reserve as at 1 January 2018.

From AFS equity investments to fair value through profit or loss ("FVTPL")

At the date of initial application of IFRS 9, the Group's remaining equity investments of US$107,273,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gains of US$76,809,000 relating to those investments previously carried at fair value were transferred from revaluation reserve to retained profits.

(b) From financial assets designated at FVTPL to financial assets at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the convertible notes and short-term investments as these financial assets do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding and so are measured at FVTPL under IFRS 9. As a result, the fair value of the convertible notes and short-term investments of US$60,000,000 and US$426,554,000, respectively, were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

(c) Impairment under ECL model

The Group has applied the IFRS 9 simplified approach to measure ECL using lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor.

Loss allowances for other financial assets at amortised cost mainly comprise of bank deposits and bank balances, and are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the directors of the Company consider that the amount is not material.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[5]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019.
[2] Effective for annual periods beginning on or after 1 January 2021.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2020.
[5] Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

IFRS 16 "Leases"

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately US$23,752,000 to be disclosed in the Company's 2018 annual report (which is tentatively scheduled to be published and issued in April 2019). A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of US$556,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement" contains a lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

2. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenue and results

The Group's revenue is from contracts with customers and mainly arising from the manufacturing services (including sales of goods, delivery service and processing service) and distribution income amounting to US$14,868,132,000 (2017: US$11,873,364,000) and US$61,771,000 (2017: US$206,746,000), respectively, to its customers in connection with the production of handsets.

The Group applies the practical expedient that information regarding the transaction prices allocated to the remaining performance obligation for contracts with customer is not disclosed as the original expected duration of the contracts are less than one year.

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

	2018	2017
	US$'000	*US$'000*
Segment revenue (external sales)		
Asia	**11,770,631**	10,241,720
Europe	**2,025,658**	1,647,937
America	**1,133,614**	190,453
Total	**14,929,903**	12,080,110
Segment profit (loss)		
Asia	**224,330**	237,043
Europe	**(368,534)**	(161,653)
America	**36,386**	27,621
	(107,818)	103,011
Other income, gains and losses	**(8,017)**	160,251
Impairment loss recognised for available-for-sale investments	**–**	(202,503)
Impairment loss recognised for goodwill	**(79,435)**	–
Impairment loss recognised for interests in associates	**(84,820)**	–
Fair value loss of convertible notes	**(44,806)**	–
General and administrative expenses	**(275,356)**	(374,548)
Research and development expenses	**(214,726)**	(160,829)
Interest expense on bank borrowings	**(27,705)**	(11,232)
Share of profit (loss) of associates	**3,085**	(8,694)
Share of loss of joint ventures	**(503)**	(1,014)
Loss before tax	**(840,101)**	(495,558)

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

Segment assets and liabilities

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

	2018	2017
	US$'000	*US$'000*
ASSETS		
Segment assets		
Allocated		
Asia	**2,636,958**	2,918,923
Europe	**962,928**	1,051,615
America	**584,954**	315,563
Total	**4,184,840**	4,286,101
Unallocated		
Property, plant and equipment	**982,433**	923,906
Inventories	**1,391,886**	980,731
Cash and bank deposits	**998,300**	1,332,614
Others	**1,163,866**	774,894
Corporate assets	**183,038**	489,437
Consolidated total assets	**8,904,363**	8,787,683
LIABILITIES		
Segment liabilities		
Allocated		
Europe	**471,807**	377,593
America	**36,968**	49,519
Total	**508,775**	427,112
Unallocated		
Trade and other payables	**4,671,180**	4,294,685
Others	**53,944**	42,784
Corporate liabilities	**1,520,183**	843,383
Consolidated total liabilities	**6,754,082**	5,607,964

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

3. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	US$'000	*US$'000*
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank deposits and bank balances	**35,035**	38,665
Service income	**99,534**	56,999
Sales of materials and scraps	**26,357**	13,641
Repairs and modifications of mouldings	**25,981**	16,658
Net foreign exchange (loss) gain	**(112,362)**	19,515
Government subsidies *(note)*	**66,622**	49,563
Rental income	**19,985**	16,586
Loss on disposal and write-off of property, plant and equipment	**(21,341)**	(29,054)
Gain from changes in fair value of financial assets designated as FVTPL	**–**	19,209
Gain on deemed disposal of interests in associates	**–**	865
Impairment loss recognised for property, plant and equipment	**(6,107)**	–
Gain on disposal of AFS investments	**–**	15,468
Net fair value gain (loss) on financial assets at FVTPL		
— short-term investments	**19,309**	–
— equity instruments	**(70,687)**	–
Others	**9,191**	(865)
	91,517	217,250

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

4. LOSS BEFORE TAX

	2018	2017
	US$'000	*US$'000*
Loss before tax has been arrived at after charging:		
Amortisation of intangible assets	**9,500**	9,500
Amortisation of prepaid lease payments (included in general and administrative expenses)	**1,794**	1,259
Depreciation of property, plant and equipment	**167,260**	159,939
Depreciation of investment properties	**919**	644
Total depreciation and amortisation	**179,473**	171,342
Less: Amount capitalised in inventories	**(138,609)**	(119,667)
Amount included in research and development expenses	**(5,158)**	(4,641)
	35,706	47,034
Staff costs		
Directors' emoluments	**2,125**	3,200
Retirement benefit scheme contributions (excluding directors)	**58,694**	51,994
Other staff costs	**464,336**	456,819
Equity-settled share-based payments	**15,632**	58,393
Total staff costs	**540,787**	570,406
Less: Amount capitalised in inventories	**(272,509)**	(249,501)
Amount included in research and development expenses	**(120,963)**	(102,354)
	147,315	218,551
Auditor's remuneration	**1,204**	1,064
Cost of inventories recognised as expense	**14,811,318**	11,793,088
Impairment loss recognised in respect of trade receivables, net	**949**	117
Provision for warranty	**69,877**	87,680
Write down of inventories to net realisable value	**132,714**	69,012

5. INCOME TAX EXPENSE

	2018	2017
	US$'000	*US$'000*
Current tax		
— Hong Kong	**–**	–
— Other jurisdictions	**6,378**	25,126
— Withholding tax for distributed profit of investments in the PRC	**–**	12,878
	6,378	38,004
(Over)underprovision in prior years		
— Hong Kong	**–**	–
— Other jurisdictions	**(17,634)**	193
	(17,634)	193
	(11,256)	38,197
Deferred tax *(note 12)*		
— Current year	**28,657**	1,272
— Change in tax rate	**(387)**	(9,633)
	28,270	(8,361)
	17,014	29,836

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

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2017: 25%). Two of the Company's PRC subsidiaries were awarded with the Advanced — Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% for a period of 3 years, i.e. effective from 2016 and 2017. Besides, one of the Company's PRC subsidiaries was entitled to a concessionary tax rate of 15% under the China's "Great Western Expansion" campaign. Except these subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2017: 25%).

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

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

6. DIVIDENDS

	2018	2017
	US$'000	*US$'000*
Dividends recognised as distribution during the year		
2016 final — US$0.00526 per share	**–**	42,000
Special — US$0.01252 per share	**–**	100,000
	–	142,000

No dividend was declared or proposed for the year ended 31 December 2018 and 31 December 2017, nor has any dividend been proposed since the end of the reporting period.

7. LOSS PER SHARE

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

	2018	2017
	US$'000	*US$'000*
Loss attributable to the owners of the Company		
Loss for the purposes of basic loss per share	**(857,121)**	(525,487)

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**8,109,008,913**	7,951,805,213

The computation of diluted loss per share for the year ended 31 December 2018 and 31 December 2017 did not assume the exercise of the Company's share awards as the assumed exercise of the outstanding share awards would result in a decrease in the loss per share.

8. GOODWILL

	US$'000
COST	
At 1 January 2017, 31 December 2017 and 1 January 2018	79,435
Impairment	(79,435)
At 31 December 2018	–

Valuation and allocation of goodwill

For the purposes of impairment testing, goodwill has been allocated to the cash-generation unit, relating to the Nokia-related business (the "CGU"), comprising operation through certain subsidiaries, including the manufacturing of feature phones and smart phones.

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

The recoverable amount of this unit has been determined based on a value in use calculation. The valuation of the recoverable amount is based on a valuation carried out by an independent professional valuer not connected with the Group with appropriate qualification. That calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 18.81% (2017: 17.54%). The cash flows beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on management's experience from manufacturing of related feature phones and smart phones and management's expectations for the market development. Any change in the key assumptions may affect the amount of impairment loss on the goodwill. During the year, due to the unsatisfied performance of the CGU and it takes longer than expected time to penetrate the market, the cash flow projections and valuation assumptions were adjusted to reflect the unexpected result of the business. Based on the valuation, an impairment loss of US$79,435,000 was allocated to the goodwill. For the allocation of impairment loss to other assets, please refer to respective notes to be disclosed in the Company's 2018 annual report (which is tentatively scheduled to be published and issued in April 2019). The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal or net realisable value if applicable, its value in use and zero.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2018	2017
	US$'000	*US$'000*
Listed securities:		
— Equity securities listed in Hong Kong	**3,075**	87,282
— Equity securities listed in Taiwan	**10,007**	19,991
	13,082	107,273
Short-term investments *(note b)*	**454,421**	–
Financial assets designated at FVTPL:		
Convertible notes *(note a)*	**–**	60,000
Short-term investments *(note b)*	**–**	426,554
	–	486,554
Analysed for reporting purposes as:		
Current assets	**454,421**	426,554
Non-current assets	**13,082**	167,273
	467,503	593,827

Notes:

(a) During the year ended 31 December 2016, the Group invested in an unlisted convertible notes with principal amount of US$60,000,000, non-interest bearing with a maturity date of 14 April 2018, issued by Mango (the "Original CN"). In exchange for the Original CN, the Group shall deliver inventories with an aggregate value of US$60,000,000 to Mango upon request by Mango.

On 1 March 2018, an addendum (the "Addendum") was signed by the Group and Mango to extend the maturity date of the Original CN to 1 March 2019 (the "Maturity Date") and to revise certain terms of the Original CN. Pursuant to the Addendum, the principal amount of the Original CN changed to be lesser of (i) US$60,000,000 and (ii) the aggregate value of the inventories that the Group has delivered plus any additional inventories to Mango (the "CN"). As a result, contract liabilities of US$17,802,000, which was included in "trade and other payables", and the Original CN were derecognised and the CN with principal amount of US$42,198,000 was recognised as at 1 March 2018. Subsequent to 1 March 2018, inventories with an aggregate value of US$2,608,000 were delivered to Mango, and thus the principal amount of the CN has further increased to US$44,806,000 as at 31 December 2018.

The Group and Mango are entitled at any time after the date of issue up to the Maturity Date to request to convert in whole or in part the outstanding principal amount of the Original CN into ordinary shares of Mango, provided that such conversion(s) shall not be effected unless Mango or the Group gives prior written consent. However, pursuant to the Addendum, to the extent there is any principal amount of the CN remains outstanding at the Maturity Date, all of outstanding principal amount of the CN would no longer be automatically converted into ordinary shares of Mango unless mutually agreed in writing by the Group and Mango. Instead, upon the Maturity Date, the Group shall have the right to elect (i) to require Mango to repay the outstanding principal amount and redeem the CN in its entirety; or (ii) to convert into ordinary shares. However, prior to the conversion, Mango shall have the overwriting right to elect (i) to still repay the outstanding principal amount and redeem the CN in its entirety with a premium accrued on the portion of the outstanding principal amount being repaid at a simple interest of 7% per annum calculated from the date of issuance of the CN to the repayment date (the "Premium"); or (ii) to effect the conversion of all or a portion of the outstanding principal amount into ordinary shares of Mango and repay the remaining outstanding principal amount (if any) that Mango elects not be converted with the Premium.

During the year ended 31 December 2018, the directors of the Company have considered to exercise the Group's right to require Mango to repay the outstanding principal amount and redeem the CN in its entirety. The directors of the Company considered that Mango has a doubt of going concern in view of its financial performance, and therefore assessed Mango's repayment capacity, such as its ability to raise additional funding. After the assessment, a fair value loss of US$44,806,000 was recognised for the convertible notes for the year ended 31 December 2018. On 21 February 2019, the Group has subsequently exercised such right. Up to the date of this announcement, the CN was not repaid by Mango.

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

10. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018
	US$'000
Equity securities listed in Taiwan *(note a)*	**4,207**
Unlisted equity securities *(note b)*	**115,025**
	119,232

Notes:

(a) The above listed equity investments represent ordinary shares of an entity listed in Taiwan. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

(b) The above unlisted equity investments represent the Group's equity interest in several private entities established in the PRC, India and Taiwan. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they are held for long-term strategic purposes.

As at 31 December 2018, included in unlisted equity securities above, there is the Group's investment in HMD global Oy, a company incorporated in Finland, which is engaged in the development, manufacture and sale of telecommunication devices, software and related services. During the year ended 31 December 2018, the Group further acquired certain interests in HMD at a cash consideration of US$62,000,000 (2017: nil).

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

11. INTERESTS IN ASSOCIATES

	2018	2017
	US$'000	*US$'000*
Cost of investments in associates, less impairment		
Unlisted	**16,869**	101,689
Share of post-acquisition profit (loss) and other comprehensive income (expense), net of dividend received	**4,103**	(1,341)
	20,972	100,348

At 31 December 2018 and 2017, the Group had interests in the following associates:

Name of associate	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share/ interest held	Proportion of nominal value of issued capital/interest held by the Group		Proportion of voting power held by the Group		Principal activity
					2018	2017	**2018**	2017	
Diabell Co., Ltd.	Limited company	Republic of Korea ("Korea")	Korea	Ordinary	**19.998%**	19.998%	**20%**	20%	Designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products
CExchange, LLC	Limited liability company	USA	USA	Class A membership interest	**49%**	49%	**49%**	49%	Engaging in the business of consumer electronics, including electronic trade-in and buy-back (including purchasing and reselling), refurbish management, overstock and return goods management and purchasing and sales representation
Rooti Labs Limited	Limited company	Cayman Islands	Taiwan	Ordinary	**27.55%**	27.55%	**27.55%**	27.55%	Research and development of wearable products
杭州耕德電子有限公司 (also known as Hangzhou Gengde Electronics Co., Ltd.)	Limited company	PRC	PRC	Equity interest	**35%**	35%	**33.33%**	33.33%	Engaging in the business of design, development and manufacturing of electronic devices and handset accessories
Mango *(Note)*	Limited company	BVI	Hong Kong	Ordinary	**15.10%**	15.69%	**33.33%**	33.33%	Engaging in the provision of mobile devices to hotels and related hospitality technology solutions

Note:

Mango is a private limited company established in the BVI. The Group has a right to redeem the investments in Mango under certain circumstances. The directors of the Company is of the view that the fair value of such redemption right is insignificant as at 31 December 2018 and 2017.

During the year ended 31 December 2018, an impairment loss of US$77,190,000 was recognised for the Group's interests in Mango. In determining the impairment loss of interests in Mango, it requires an estimation of the recoverable amount, which is the higher of the fair value less costs of disposal and value in use. The Group engages an independent professional valuer to estimate its share of the present value of the estimated future cash flows expected to be generated from Mango, including expected dividend income from Mango and the proceeds from the ultimate disposal of the investment. The Group also takes into consideration of any potential investments by market investments of the shares of Mango, the actual performance of Mango during the current year and the business plan of Mango approved by the management of Mango in the foreseeable future.

12. DEFERRED TAXATION

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

	Allowances for inventories and trade and other receivables	Warranty provision	Accelerated tax depreciation	Tax losses	Deferred income	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000* *(Note)*	*US$'000*
At 1 January 2017	(7,131)	(4,202)	7,100	(1,037)	(5,004)	(18,362)	(28,636)
(Credit) charge to profit or loss for the year	(2,939)	(11,572)	1,594	(1,555)	2,244	13,500	1,272
Effect of change in tax rate	(2,464)	(1,499)	2,018	–	(2,060)	(5,628)	(9,633)
Exchange adjustments	(564)	(225)	478	78	(300)	(1,040)	(1,573)
At 31 December 2017	(13,098)	(17,498)	11,190	(2,514)	(5,120)	(11,530)	(38,570)
Charge (credit) to profit or loss for the year	7,072	16,975	(363)	(1,767)	5,053	1,687	28,657
Effect of change in tax rate	(62)	(8)	–	–	–	(317)	(387)
Exchange adjustments	346	60	(413)	91	67	290	441
At 31 December 2018	(5,742)	(471)	10,414	(4,190)	–	(9,870)	(9,859)

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

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

	2018	2017
	US$'000	*US$'000*
Deferred tax assets	**(20,300)**	(43,932)
Deferred tax liabilities	**10,441**	5,362
	(9,859)	(38,570)

At 31 December 2018, the Group has not recognised deductible temporary differences on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$259,033,000 (2017: US$71,855,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unused tax losses of approximately US$1,604,045,000 (2017: US$1,215,147,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$14,004,000 (2017: US$8,379,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$1,590,041,000 (2017: US$1,206,768,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. The unrecognised tax losses will expire by 5 consecutive years.

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

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$1,213,508,000 (2017: US$1,318,638,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

13. TRADE AND OTHER RECEIVABLES

	2018	2017
	US$'000	*US$'000*
Trade receivables	**3,640,165**	3,462,072
Less: Allowance for credit losses	**(1,795)**	(903)
	3,638,370	3,461,169
Other taxes recoverables	**549,483**	169,564
Other receivables, deposits and prepayments	**117,725**	145,870
Total trade and other receivables	**4,305,578**	3,776,603

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

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

	2018	2017
	US$'000	*US$'000*
0–90 days	**3,598,003**	3,404,202
91–180 days	**30,350**	41,405
181–360 days	**2,331**	9,776
Over 360 days	**7,686**	5,786
	3,638,370	3,461,169

14. TRADE AND OTHER PAYABLES

	2018	2017
	US$'000	*US$'000*
Trade payables	**3,920,741**	3,693,693
Accruals and other payables	**1,170,684**	931,650
Deferred consideration *(note)*	**–**	19,120
	5,091,425	4,644,463

Note: The amount represented the aggregate value of the inventories to be delivered by the Group to Mango as the consideration for the Original CN, details of which are set out in note 9(a).

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

	2018	2017
	US$'000	*US$'000*
0–90 days	**3,678,586**	3,616,960
91–180 days	**182,819**	47,979
181–360 days	**39,059**	19,900
Over 360 days	**20,277**	8,854
	3,920,741	3,693,693

15. BANK BORROWINGS

	2018	2017
	US$'000	*US$'000*
Bank loans	**1,427,217**	712,600

Analysis of bank borrowings by currency:

US$	**1,427,217**	712,600

The bank borrowings as at 31 December 2018 are unsecured, obtained with original maturity of two to twelve months (2017: one to six months) and carry interest at fixed interest rate ranging from 2.76% to 4.40% (2017: 1.72% to 2.40%) per annum. Out of total bank borrowing, bank borrowing of US$198,000,000 (2017: US$90,000,000) contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 1.73% per annum (2017: 2% per annum).

16. PROVISION

	2018	2017
	US$'000	*US$'000*
At 1 January	**96,896**	21,172
Exchange adjustments	**(554)**	1,022
Provision for the year	**69,877**	87,680
Utilisation of provision	**(63,500)**	(12,978)
At 31 December	**102,719**	96,896

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

17. DEFERRED INCOME

	2018	2017
	US$'000	*US$'000*
Government subsidies	**20,844**	23,607

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

18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

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

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

	As at 31 December 2018		
Financial assets/liabilities subject to offsetting	**Gross amounts of recognised financial assets (liabilities)**	**Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position**	**Net amounts of financial assets presented in the consolidated statement of financial position**
	US$'000	***US$'000***	***US$'000***
Bank balances	**1,098,738**	**(1,098,738)**	**–**
Bank borrowings	**(1,098,738)**	**1,098,738**	**–**
Interest receivables	**14,991**	**(13,612)**	**1,379**
Interest payables	**(13,612)**	**13,612**	**–**

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

During the year, net interest income of US$32,521,000 (2017: US$14,494,000) was included in interest income under the above arrangement.

IMPORTANT

The Group's consolidated final results for the year ended 31 December 2018 (the "current period") set out in this announcement have been reviewed and audited in accordance with the relevant financial standards. The Group's results of operations in the past have fluctuated and may in the future continue to fluctuate (possibly significantly) from one period to another period. Accordingly, the Group's results of operations for any period should not be considered to be indicative of the results to be expected for any future period.

In the "Outlook" section below, it is mentioned that on the basis of a preliminary review of currently available information, the Company expects that the Group's operating loss in the first half of 2019 will be reduced when compared year-on-year. The Group recorded a consolidated net loss of US$348,567,000 for the six-month period ended 30 June 2018.

This announcement contains forward-looking statements regarding the Company's expectations and outlook on the Group's business operations, opportunities and prospects. Such forward-looking statements do not constitute guarantees of the future performance of the Group and are subject to factors that could cause the Group's actual results to differ (possibly materially) from those expressed in the forward-looking statements. These factors may include, but not limited to, changes in general industry and macro-economic environment (such as intensifying trade wars and political conditions), changes in monetary market (such as interest rate hikes and volatility in foreign exchange rates), changes in capital market, competition, shifts in customer demands and preferences, seasonal demands, changes in sales and product mix, changes in commodity price, shortage of components, technology advancement, and changes in market/legal/regulatory/government/tax policy. In addition, new risks emerge from time to time and it is not possible for the management to predict all such risk factors or to assess the impact of such risk factors on the Group's business. The Company undertakes no obligation to update or revise any such forward-looking statements to reflect any subsequent events or circumstances, except as otherwise required by applicable requirements laid down by the Listing Rules and the SFO.

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

INTRODUCTION

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai. Hon Hai is a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation, and a leader in the handset industry worldwide as a vertically integrated manufacturing service provider offering a comprehensive range of end-to-end components and manufacturing and engineering services to its customers in respect of handsets and other wireless communication devices and consumer electronic products, including unique and innovative product development and design, casings (the casings may be sold to customers or used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly etc., logistics and distribution and supply chain services and

solution, and repair and other after-sales services which are located close to the customers. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as e-Readers, tablets and voice interaction products.

The Group strives to provide its customers with not only manufacturing support, but also a full range of cost-competitive services including repair, service on a global basis, and the Company believes that this strategy differentiates the Group from its competitors and will help to support its customers' products during their entire life cycles and reduce the time required to bring the products to market.

Our customer, HMD global Oy ("HMD"), is headquartered in Espoo, Finland and is the home of Nokia-branded phones and the manufacturers of Nokia-branded smart phones and feature phones targeting a range of consumers and price points, and sales to HMD are grouped under our Europe segment. By working with best in-class industry partners, HMD has assembled an ecosystem of strong partnerships in imaging, software and manufacturing. With a commitment to innovation and quality, HMD is the exclusive licensee of the Nokia brand for phones and tablets. HMD is principally responsible for brand and intellectual property (IP) right management, product development, marketing strategy and distribution for the Nokia-branded phones. For details, please see the section headed "Investments" below.

DISCUSSION AND ANALYSIS

Key Relationships with Customers, Suppliers and Employees

The Group's major customers include top international brands and Chinese brands. Therefore the Group has established operations, Research and Development ("R&D") centres and manufacturing and phone repair and refurbishment facilities located close to its customers across the Asia-Pacific region (e.g. China, India, Vietnam, Taiwan) and the Americas including Mexico to better facilitate their respective local needs and enable such customers to accelerate the launch of their products to market.

In relation to the Group's continuous fostering and development of long-term relationships and partnerships with customers, during the current period, the Group entered into collaboration with a U.S.-based internet customer who is one of the most innovative internet companies in the world to bring the most advanced AI technology-embedded smart phones to customers and consumers worldwide. As its sales grow, it has now become one of the Group's top five customers.

As a whole, the Group's strategy is to work with the customers from the initial concept design stage up until the end of the production process managing all aspects of sourcing, development, assembly and services of phone and provide a complete range of cost-competitive and vertically-integrated global supply chain solutions for our customers and consumers. This enables our customers to leverage on our supply chain solutions to meet their product requirements throughout the life cycle of their products.

Amongst the Group's five largest customers (including HMD) during the current period which accounted for approximately 86.8% of the Group's total revenue during such period, three of them have long-term and well-established relationships with the Group for more than five years, the other one have been its customers for more than two years. For the remaining major customer, it has been the Group's customer for a year. These top five largest customers are largely the same as those for 2017 but there has been a change as the U.S.-based internet company emerged. These major customers are not required to commit to certain minimum purchase value or volume from us over a period of time. In the dynamic handset industry, where innovation and enhanced user experience are paramount and loss of or changes in market position of any of these customers or their products or outsourcing strategies of these customers may materially and adversely affect the Group's business, financial condition and results of operation, especially in view of the concentration of our sales to these customers. Our reliance on major customers means that our performance is directly affected by the performance of these customers in the challenging handset industry. Given that the industry is dominated by a few significant players, it would be difficult for the Group to develop new customers that have similar business scale as our existing major customers. Further, it takes time for us to gear up our production facilities to produce products and provide services that are customised to new customers. Depending on the specification of products, it would take us from 2 months to 10 months to customise our production facilities if we switch to or add a new customer. In light of the handset market saturation, the Group focuses on technological innovation to enhance user experience and values the mutually beneficial relationships with its customers by providing them with high quality products and services of global standards at competitive prices, manufacturing industry-leading and state-of-the-art products for its customers, offering customised services and flexibility to clients, and creating customer delight among passionate people engaged in a world-class manufacturing environment, and continues to prolong, develop and foster closer relationships and partnerships with them for mutual benefit of the Group and such customers in the long run and secure optimal utilisation of manufacturing equipment and facilities of the Group so as to reduce costs. Like many industries in today's globalised world, the handset market experiences continuous consolidation where an increasingly small number of leading players tend to capture a relatively significant market share. As an OEM/ODM/IDM (Original Equipment Manufacture/Original Design Manufacture/Innovative Design Manufacture) and manufacturing solution-provider in the handset industry, the Group has proactively managed its growth and concentration risk in a balanced manner.

One of such five largest customers until October 2018 was Sharp Corporation, which is a connected person of the Company pursuant to the Listing Rules as it is a close associate of Hon Hai, the ultimate controlling shareholder of the Company. The revenue derived from the sales of goods and rendering of services by the Group to Sharp Corporation accounted for approximately 6.44% of the Group's total revenue from the sales of goods and rendering of services for the current period.

The Group believes that the efforts and results in the previous years on customer diversification are testimony of its ability to achieve this balance in the rapidly changing industry landscape to date. Year-on-year change in sales is one of the financial key performance indicators (KPIs) as this will reflect the effectiveness of the efforts invested by the Group on the above and ability to achieve economies of scale and scalability in the competitive handset market and increase the bargaining power of component and material

sourcing and procurement for ODM, IDM and IIDM (Integration, Innovation, Design, Manufacture) businesses.

The credit period granted to the Group's major customers ranges from 30 to 90 days, which is in line with those granted to other customers. The allowance for credit loss made for the current period was US$0.95 million (when compared to the allowance for doubtful debt of US$0.12 million for the same period in 2018), which allowance was made for specific exceptional circumstances and based on the expected credit allowance assessment. Subsequent settlements of trade receivables from these major customers have been reviewed and are satisfactorily resulting in no material provision for the current period.

The Group's procurement team deals with over 3,000 suppliers that supply components and other materials necessary for the Group's businesses and most of them are reputable and qualified approved suppliers with long-term and stable relationships with the Group, in order to secure adequate supply of key parts, maintain stronger bargaining power, and source good quality materials with competitive prices in a time-efficient manner without the need of relying on some major suppliers. Bill of material (BOM) cost control is of critical importance.

The Group's suppliers include suppliers of raw materials, electronic components and parts, display module, camera module, battery, enclosure and packaging materials, and such suppliers are generally selected by the Group based on the quality and reliability of products, technical competence and engineering capability, on-time delivery, service quality, price competitiveness, commercial terms for supply transactions and specifications from its customers and industry reputation. Purchases from the Group's five largest suppliers accounted for approximately 65.66% of the Group's total purchases for the current period. Amongst these five largest suppliers, four of them have long-term and well-established relationships with the Group for more than five years, and the remaining one has been our supplier for a year. As our contracts with these major suppliers do not require them to reserve their production capacity to produce supplies to us or to guarantee minimum supplies to us, we could be exposed to the risk of unstable supplies. Notwithstanding the apparent concentration of procurements from these major suppliers, we are not exposed to any material risk of disrupted supplies from our suppliers as our procurement needs are well planned with sufficient buffer to address any possible material delay and there are a vast number of alternative suppliers in the market for the Group to choose from. We believe that we will not be subject to material costs or delay if we were to switch suppliers in case such needs arise. Notwithstanding that there are a great number of suppliers in the market that the Group could potentially choose from, we have over the years concentrated our procurement from major suppliers because of the ease of procurement process and the commercially sound terms offered by these suppliers. One of such five largest suppliers is the Hon Hai Group. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. The purchases attributable to the Hon Hai Group accounted for approximately 7.35% of the Group's total purchases for the current period. For details, please refer to the "The Group's Value Chain" section of the Company's separate 2017 environmental, social and governance report issued and published on 9 April 2018 as well as the Company's separate 2018 environmental, social and governance report to be issued and published simultaneously upon the issuance and publication of the Company's 2018 annual report (which is tentatively scheduled to take place in April 2019).

In response to the potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has diversified its customer and supplier base and has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. For details, please refer to the "Accountability and Audit" section of the Company's 2018 corporate governance report, which forms part of the 2018 annual report (which is tentatively scheduled to be published and issued in April 2019).

Employees are valuable assets to the Group. Therefore, the Group has been working diligently to attract and retain talents. The Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified employees by offering more equal employment opportunities, competitive compensation and benefits, more favourable working environment, broader customer reach, bigger scale in resources, training and job rotation, coupled with better career prospect across various products and business lines. The Group places great emphasis on career planning and talent development for employees by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency development to enhance employees' capabilities, while external training programs include seminars or conferences organised by external parties that provide excellent training opportunities for employees. The Group prides itself on providing a safe, effective and congenial working environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been implemented to ensure a healthy and safe working environment. The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, development, rewards and retention. The Group has built up an experienced R&D team in China and Taiwan to support its significant opportunities for business growth (such as new technology and materials and new customers) by investing in R&D on top of its strong manufacturing and engineering capabilities to implement and execute the corresponding R&D requirements of our customers. The Group strives to reinvent productivity to empower people and organisations to achieve more and increase agility, streamline engineering processes, move faster and more efficiently and simplify its organisation. By encouraging employees to bring up innovation at work, cooperating with customers on pioneer projects and supporting start-ups on manufacturing (or even with equity investments), the Group has successfully accumulated relevant experiences on procurement, value and design engineering and product development, quality management, production management, repair services, logistics and distribution competence. As at 31 December 2018, the Group had a total of 97,484 (31 December 2017: 92,779) employees. Total staff costs incurred during the current period amounted to around US$541 million (31 December 2017: around US$570 million), and the year-on-year decrease was mainly due to compensation of individual decreased. Please refer to the "Investments" and "Outlook" sections below for details. The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. The Company has adopted both a share scheme and a share option scheme, and the share option scheme complies with the requirements of Chapter 17 of the Listing Rules. The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Company's performance, their duties and responsibilities with the Company, their contributions to the Company, the prevailing market practices as well as the recommendations of the Company's remuneration committee. For details, please refer to the "Human Capital — The Group's Greatest Asset" section of the Company's separate 2017 environmental, social and governance report issued and published on 9 April 2018 as well as the Company's separate 2018 environmental, social and governance report to be issued and published simultaneously upon issuance and publication of the Company's 2018 annual report (which is tentatively scheduled to take place in April 2019).

Review of Results and Operations

Financial Performance

The financial KPIs include the above-mentioned year-on-year changes in sales, gross margins, net margin and return on equity. For peer analysis, as peers may have different business strategies, business models, client mix, revenue and product mix (casing versus system assembly and other non-handset businesses), business segments, pricing policy, geographical footprint, cost structure, it may be difficult to make direct comparisons at consolidated group account level as some peers may have business segments other than casing and system assembly business.

For the twelve-month period ended 31 December 2018, the Group recognised a consolidated revenue of US$14,930 million, representing an increase of US$2,850 million or 23.59% when compared to US$12,080 million for the same period last year. Net loss for the current period was US$857 million, when compared to a net loss of US$525 million for the same period last year. The Group's net loss is primarily attributable to various factors, including the following: (1) the challenging conditions faced by the Group in the second half of 2017 persisted in 2018; (2) pressure on the Group's gross margins continued; (3) increase in the expenses relating to the continuous growth of the Group's IIDM business (including ancillary logistics and distribution services); (4) increase in the Group's foreign exchange loss; (5) a substantial impairment losses relating to the Group's goodwill and interests in associates; (6) fair value loss on convertible notes and (7) a substantial loss arising from the change in fair value of the Group's investments in certain listed companies.

Gross profit and gross margins of a manufacturing business are common financial KPIs measuring how much a company is generating from revenues (after deducting cost of sales) to cover operating expenses. A higher percentage of gross profit means a stronger ability to control cost of sales, which includes control of variable costs such as BOM cost, direct labour costs, variable manufacturing costs, overheads and yields, and efficiency which can improve the contribution margin to cover fixed overheads. The more profitable the business is, the more profit is available to cover operating expenses and ultimately to pass on to the shareholders. As explained in further detail below, these are key indicators of the Group's business as our performance has been impacted to a large extent by the challenges presented for our gross profit and gross margins. Gross loss for the current period was US$84 million (2017: gross profit of US$130 million), mainly as a result of the decrease in gross margins. Gross margins for the current period 2018 was a loss of 0.56% and was less than the gain of 1.08% for the same period last year. Gross margins of Nokia-branded phone manufacturing business starting from 2017 was subject to extremely huge pressure since the beginning of mass production of Nokia-branded smart phones in June 2017. HMD, the Group's strategic customer, needed to promote, develop and prove itself in the competitive smart phone market by introducing attractive portfolio which could challenge the established competitors product line up. In order to penetrate the market and capture market share, the pricing of the first and second generation products were required to have competitive hardware and specifications to challenge competitors' products in similar price point. This increased the pressure on the material cost and resulted that cost of goods sold of smart phones went above selling prices due to low volumes and limited bargaining power in the component market. The Group was in a weak bargaining position of component and material sourcing in the beginning of the IIDM

business. With the Group's continuous improvement in the product design, material procurement, manufacturing and cost management on the indirect labours of the IIDM business, HMD introduced its third generation smart phones in the third quarter of 2018, which offered competitive price-performance ratio as its competitors and improved time to market.

The majority of the poor performance of this part of business was reflected in the loss- making Europe segment (as disclosed in note 2 of "Revenue and Segment Information") as HMD is a European company.

In 2018, after operating for two years (since the acquisition of assets from Microsoft Mobile Oy ("Microsoft") in November 2016), the challenging conditions faced by the Group started in the second half of 2017 and continued into 2018. During that period, BOM costs of smart phones remained higher than the selling prices. The volume of manufacturing of Nokia-branded smart phone business is directly related to success of its customer, HMD. However, the volume was below the levels that would drive economies of scale so that the Group's sourcing could carry out supplier consolidation and allocate procurement to only a limited number of qualified suppliers to enable the Group to have a stronger bargaining power and buy at bulk and at more competitive prices. It is anticipated that it may take time to reach needed scale of products as HMD is operating in a handset market which is highly competed and market growth has slowed down and few markets have even contracted year over year. For the Nokia-branded phone business, the Group now has to do the commodity and program sourcing work itself. To relieve its pricing and gross margin erosion pressure, BOM control is of critical importance. Key components in handset BOM cost include platform chipset, memory, display, camera module, enclosure/housing and battery which account for the top six items of cost in the dollar value. Due to the continuous year-on-year market decline in the Chinese consumer market, the material market situation has changed dramatically. In the last quarter of 2018, memory and most of the critical ratio-frequency (RF) component supply situation has been improved significantly. However, as the handset market competition remains fierce, the cost of components for chipset, camera and display declined due to the weak demand in the market, the gain was diminished by the increase in product specification and innovation such as the introduction of new chipset, dual camera solution being moved to mid-end models and further increase in the screen size, in order to attract end consumers. Furthermore, though the price of battery raw materials has been flat or has dropped slowly in the second half of year, the Group faced a negative impact on the cost of battery due to the currency fluctuation in RMB. The cost increases in the key components has affected profit margins because the rise in BOM cost cannot be automatically transferred into customers without negative impact on the demand. Smart phone business continues being price-sensitive and retail selling prices of phones sold by TNS Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands ("TNS"), are required to be competitive in order to continue taking share in the market and increase the phone shipment volume to achieve a better bargaining power for the sourcing function of the Group. Unfavourable factors including pressure in BOM costs, manufacturing costs and quality assurance costs of smart phones have affected the costs of smart phones manufactured by the Group which are sold to HMD and gross margins pressure were impacted significantly. Internally, the Group will continue to devote adequate resources to program sourcing and commodity sourcing and find more new competent suppliers and maintain executive-level vendor relationships to obtain the best technology, supply and price support and gradually obtain improved position with suppliers. Other initiatives on BOM cost reduction include the

design of key parts based on best cost performance, collaboration with vendors and the continuous narrowing of the gap (2–3%) with industry cost leaders. The engineering team is taking learnings from 2017 and drives product innovation, optimises product design (including BOM design) and to create competitive products. On top of this, there is a need to drive for better internal operational efficiency of assembly, testing processes, inventory and supply chain management, quality management, improve yields to lower manufacturing costs, conduct the benchmarking of cost leaders' processes and costs of external EMS (electronic manufacturing services) to improve the competitiveness of the Group's manufacturing costs, yield and efficiency. On the other hand, as phones are distributed worldwide, there is need for handling order fulfilment in many different countries and this will inevitably have a high impact on our conventional flow line manufacturing process and results in higher operational cost. As a whole, good vendor management, supply chain management, manufacturing management, quality management, order fulfilment and inventory management are critical to ensure cost efficient operations. All the challenges and factors listed above posed huge pressure on gross margins and the majority of the poor performance was reflected in the loss-making Europe segment (please refer to note 2 of "Revenue and Segment Information").

For TNS, in the second operation year, although TNS has streamlined its operational structure to reduce general and administration ("G&A") expenses, the selling expenses have increased because more investments were needed to fuel the channel, especially in declining or slow growth smart phone markets.

Despite all the actions and efforts that have been taken by the Group's IIDM business in the past two years, the overall performance is poor. As competition remains fierce and given the difficulties ahead in 2019, the Group has critically reviewed its business strategy and will not accept orders with poor margin and at the same time. The Group's partner, HMD (which has been in the dynamic handset market) came to a strategic decision to deploy a multi-ODM partnership strategy and HMD will not only seek for the Group's support but also contracts ODMs. In doing so, the sales income from HMD would be expected to be less yet the Group can refocus on the projects with optimised profit margins. Coupled with the refocusing, the Group implemented cost down exercises to lower its overhead and operating expenses to maintain a healthy cash flow to keep its ability to sustain in the highly competitive mobile phone market. Accordingly, TNS has decided to discontinue its distribution business and cut the headcounts and consequently terminated the customer and distributor agreements of distribution business at the end of 2018.

Apart from the IIDM business, the Group's casing and system assembly business also faced a lot of challenges in 2018. There was surplus capacity for the casing industry sector as there had been excessive investments in mechanical capacities (such as CNC (Computer Numerical Control) Machines) in previous years by peers and competition of system assembly business was also keen and the price and margin erosion pressure for both casing (and mechanical) and system assembly businesses were extremely high. At the same time, there had been a change in our sales and product mix and there had been some decline in our casing business (partly due to the change in product mix from high-end and mid-range products to low-end ones) whilst the large year-on-year increase in the sales in 2018 was attributable to the increase in system assembly business of comparatively low gross margins. For our peers of casing business, they are companies listed in the Mainland, Hong Kong or Taiwan and have been the vendors of our customers for a long time with well-established business relationships with our customers. They also have customers which are not the customers of the Group. They have

strong cost competitiveness and they are innovative (like having glass casing capabilities and in-mould transfer (IMT) technology on plastic casing), have become increasingly strong and competitive in all areas at a fast pace and their margins are in general better than the Group. A research in analyst reports and quarterly reports (in 2018 quarterly results) and annual reports of the 5 major competitors/peers had been conducted in-house and the study showed that their performances varied but was in general deteriorating in 2018. These peers' core businesses are diversified. Apart from mechanical business, they also engage in other businesses. For these 5 peers, their core and other businesses and 2018 performance are listed as follows:

(i) Peer 1 is a Hong Kong listed company whose core businesses are acoustics and haptics optical applications. Its mechanical business is comparatively small and thus in its 2018 third quarterly report there is no separate disclosure of its mechanical business, but it stated that it will continue to provide metallic frames and casing for more high-end and mid-range Android models;

(ii) Peer 2 is a Hong Kong listed company whose business includes handset component making (including casing, mould/keypads and battery chargers) and is an EMS/ODM service provider for handset OEMs and also provider for a wide range of metal, glass, and ceramic designs. Its 2018 first half gross margins declined a bit year- on-year, which is in line with the concerns on the intensifying competition in the metal casing industry and margin pressure from the metal casings business and new business still in the infant stage with potential diluted margins;

(iii) Peer 3 is a PRC listed company whose shares listed in Shenzhen Stock Exchange and its core business also includes IMT casings and glass casings and water-proof components. In its recent announcement of the unaudited 2018 business performance, it expects a year-on-year 70%–98% decline in its net profit, the gloomy 2018 result was attributable to sluggish demand for smart phones and higher R&D expenses from investing in new projects. Peer 3 is expecting to increase its non-smart phones business to more than 50% of revenue contribution within the next three years;

(iv) Peer 4 is a Hong Kong listed company whose business includes mobile communication terminal, digital and optoelectronic products such as precision mobile phone metal appearance, mobile phone metal frame, precision shielding, micro precision connectors respectively. Its latest profit warning announced its unaudited FY2018 profit attributable to the shareholders would decrease by 40% to 50%, as compared to the last year due to rapid decline in the shipment volume and the unit price of its metal handset casings in the second half of 2018 and the impairment made on its inventory; and

(v) Peer 5 is a Taiwan listed company which specialises in light metal casing and its products include computers, communication and other consumer electronics. Due to the sluggish market, its 2018 third quarterly result was disappointing and recorded a gross margin of 2% and a net loss of 10% (as compared to a gross margin of 17% and a net margin of 7% for the same period in 2017).

With markets demanding multi-functionality, thinness and eco-friendly phones, metal materials have been a trend and gained widespread popularity. Apart from having high ventilation efficiency with great tensile strength, metal materials also look contemporary and stylish and this means that casing business is a sustainable business. Therefore, the Group is

now devoting itself to improving existing technologies and manufacturing, delivering innovation on both processes and materials, enhancing the core competence and capability of mechanical engineering (which is critical to the successful running of casing business), quality and efficient customer responsiveness and speed, shorter mould manufacturing cycle time and cost effectiveness and efficiency of casing business and optimising production costs like direct labour costs and yields and benchmark costs of our own manufactured mouldings and tooling against market prices. China domestic labour costs have risen sharply, yet the efficiency of assembly line workers has not increased correspondingly and the cost advantage of China is no longer comparable with other countries in Southeast Asia.

System assembly business of OEM business model, which is the major business model of the Group, has a low barrier to entry and low gross margins. In terms of competition analysis, the Group only earns processing fees and manufacturing fees while yield, efficiency and quality differentiation are of critical importance to reducing customers' price sensitivity and developing long-term business relationship. For our Indian operation, we are strong as we own very large system assembly capacity and there is vertical integration from PCBA to complete handset assembly. Peers of OEM business include Taiwan, China and U.S. companies. In relation to a Taiwan peer who is a Taiwan listed company which offers a wide range of electronics products in computing, it also engages in the development, design and manufacturing of peripherals and components of the above-mentioned products. Referring to its published first nine months result, its gross margins decreased from 4.2% in 2017 to 3.3% in 2018, and its net margin also decreased from 1.8% in 2017 to 0.8% in 2018. In its conference material, it mentioned that the decreases in margins were mainly due to keener market competition, increased people cost and higher components price. Another peer is a PRC listed company which started with OEM business and has become an OEM/ODM company as the competition in the system assembly industry is intense due to the low entry barrier that attracted a large number of competitors. The first nine months' result showed its gross margin was 7% but its net loss margin was 1.5% (versus a gross margin of 8.2% and a net margin of 2.7% for the same period in 2017). During a conference the management mentioned that the decreased margin was caused by the increased customs tax and fluctuation of exchange rates which led to higher procurement prices of foreign components. The remaining peer is a reputable U.S. listed company which is an Electronics Manufacturing Services (EMS) provider focusing on delivering complete design, engineering and manufacturing services to aerospace and defense, automotive, computing, consumer, industrial, infrastructure, medical, clean technology and mobile OEMs. According to its second quarterly report of the financial year 2019 (for the three months ended September 30, 2018), the U.S. GAAP ("U.S. Generally Accepted Accounting Principles") net income decreased by 58% year-over-year and adjusted net income only increased by 7.6%. The management mentioned during a conference call that the consumer electronics products segment had accounted for the majority of the decline in its performance. In the face of the profit and revenue challenges in the business, the company is actively managing underperforming accounts and revamping its go-to-market strategy to be selective on partnering with well-funded, leading multinational brands that control multiple categories of products and have regional demand requirements. The above comparison with the 3 peers showed that the market is highly competitive and the margins of system assembly business/ industry is narrow.

The Group had experienced a foreign exchange loss of US$112 million for the current period of which the depreciation in INR has the largest exchange exposure to the Group. The INR has weakened sharply against USD (U.S. dollar) and is down by over 10% throughout 2018 which resulted in exchange loss to the Group due to the settlement of account payable denominated in USD. For the third quarter in 2018, the INR further depreciated due to the high oil price and state assembly election in India. The inflation has finally stabilised starting from November 2018.

To carry out forward hedge of INR which comes with certain costs due to interest rate differences between INR and USD, the Group has implemented a currency adjustment mechanism with its customers to mitigate future foreign exchange risk. For 2019 outlook, the INR will be relatively stable in the trench of 70–72 versus the record high of INR at 74. Two major reasons which caused the depreciation of INR in 2018 were high oil price and uncertainty of state assembly election, although OPEC members has increased its oil output and there was no surprise in state election, the recent U.S. sanction on Venezuela will tighten the oil supply and the general election in May 2019 might lead to the depreciation in INR. The Group has been closely monitoring the extremely volatile foreign exchange/money market to reasonably and meaningfully ascertain the possible foreign exchange-related losses and their impacts on the Group's overall performance at the relevant times when 2019 is progressing.

Regarding operating expenses for the current period was US$613 million, when compared with US$620 million for the same period last year. Because of the continuing investment in the IIDM business relating to the Nokia-branded phones in 2018, there was a year-on-year increase in selling expenses and R&D expenses. For selling expenses, the increase was mainly due to the increase of marketing expenses like digital and below-the-line marketing and communication and advertising expenses, expenses for external cooperative field force and promoters and sales incentive, etc., for marketing smart phones associated with an increase in the distribution volume of Nokia-branded phones. The selling expenses of Nokia-Branded phones will decrease in 2019 dramatically as the Group discontinued TNS's distribution business. For G&A expenses, they mainly include spending on professional fees (legal and accounting firms), recruitment fees, IT services and license fees of application systems, depreciation and maintenance expenses for the accounting system, travelling and rental expenses and salaries. However, as some of the expenses like the professional fees and recruitment fees incurred in 2017 were non-recurring ones and there is no such expense in 2018, and there was also a reduction in payroll costs and overheads in 2018, there has been a year-on-year decrease in G&A expenses. For R&D expenses, there is a continuous investment in product innovation in order to remain competitive and offer unique values to customers.

Net profit and net profit margins are the financial KPIs measuring earnings/losses resulting from subtracting operating expenses and other losses (such as equity investments fair value change losses) and tax and interest costs from gross profit earned. It measures the ability to control operating expenses and optimise tax and interest costs and minimise other kinds of losses (such as equity investments fair value change losses). These are key indicators of the Group's business as explained above. In light of the factors mentioned above, loss attributable to owners of the Company for the current period was US$857 million, as compared to a net loss attributable to the owners of the Company of US$525 million for the corresponding period last year. The net loss margin for the current period was 5.7%, as compared to the net loss margin of 4.4% for the same period last year.

As at 31 December 2018, the ROE (return on equity, representing the amount of net income returned as a percentage of shareholders' equity, which measures a company's profitability by revealing how much profit such company generates with the money that its shareholders have invested) was 39.97% negative, when compared with the ROE as at 31 December 2017 of 16.56% negative. The Group strived to achieve a better ROE.

Income tax expense during the current period was US$17.0 million, representing a decrease by US$12.8 million when compared to income tax expenses of US$29.8 million for the same period last year. The decrease was mainly due to the decrease in profits and reverse of deferred tax assets during the current period.

During the period ended 31 December 2018, impairment loss of US$6.1 million, US$79.4 million and US$84.8 million was recognised for property, plant and equipment, goodwill and interests in associates respectively. Impairment loss of US$202.5 million was recognised for available-for-sale investments for the year ended 31 December 2017.

During the period ended 31 December 2018, fair value loss of US$44.8 million (2017: nil) was recognised for convertible notes.

Basic loss per share for the current period was US10.57 cents.

Dividends

The form, frequency and amount of dividends to be declared each year and dividend pay-out ratio will be dependent upon the Group's financial performance and cash flow generated from operations, projected working capital and capital expenditure and capital requirements, cash position and other relevant factors as the Board may deem appropriate.

No dividend was declared or proposed for the year ended 31 December 2018, nor has any dividend been proposed since the end of the current period.

Sales

For the current period, the Group recognised a consolidated revenue of US$14,930 million, representing an increase of US$2,850 million or 23.59%, when compared to US$12,080 million for the same period last year, thanks to the Group's continuous development and penetration of the Chinese and international brand customers and efforts to expand production capacity in India and the continuous running of the IIDM business relating to the Nokia-branded products and the entering into collaboration with a U.S.-based internet customer. Since 2017, the Group started to generate growing sales revenue via manufacturing and selling phones to HMD and distribution service income from such collaboration until the adjustment to the collaboration model happened in the end of 2018. The Group also succeeded in increasing system assembly sales of low gross margins in the current period, though there was a significant decline in its casing business in the current period due to product mix changes. By the way, the Group will continue to provide system assembly service of consumer electronic products such as e-Readers, tablets and voice interaction products to an international brand. This brand now offers lower-price products to penetrate the market.

The Group started its business serving international brands by manufacturing feature phones. With the launch of smart phones and the subsequent popularisation which has driven smart phone outsourcing, the Group has benefited from the trend. In the past couple of years, there have been market share reshuffles between international brands and other market players (such as Chinese brands), and the Group saw diversing performance across its customers and there was rapid shift among certain Chinese OEMs manufacturers and the market shares of some of the Group's major customers belonging to international brands had declined quite dramatically in 2016, and hence some of them had drastically changed their outsourcing strategies through restructuring and in-house production, thereby cutting down the previously established outsourcing business with the Group, which had a direct impact on the Group's sales in 2016. For 2017 and 2018, the competition continued to be fierce and price and margin erosion was still ongoing. Various research companies remained cautious of future smart phone shipment growth. Looking at some of the research reports of leading research firms, we can realise the risks and concerns over future growth of handset shipment.

According to the International Data Corporation (IDC) Worldwide Quarterly Mobile Phone Tracker published on 11 December 2018, worldwide smartphone shipments are expected to decline by 3% in 2018 before returning to low single-digit growth in 2019 and through 2022. Smart phone shipments are expected to drop to 1.42 billion units in 2018, down from 1.47 billion in 2017. IDC anticipates a flat 2019, over the long-term, smart phone shipments are forecast to reach 1.57 billion units in 2022. Reports mentioned that the declines were mainly attributable to the lack of further innovation in the current generation of handsets, especially in the highly saturated developed markets where replacement cycles were lengthening with overall smart phone features and the slow revival of China was one of the reasons for low growth in the third quarter of 2018 and this slowdown will persist into the first quarter of 2019 as the market is expected to drop by 3% in the fourth quarter of 2018. Further investigating into the China market has proven IDC's concern, as the report published by the China Academy of Information and Communications Technology (CAICT) on 28 January 2019, it showed the 2018 China domestic mobile phone shipments dropped by 15.6% to 414.2 million units and the number of new model release dropped by 27.5% to 764 models year-on-year respectively.

In contrast with the negative growth smart phone market, Counterpoint released a report on 19 December 2018 showing the shipments of feature phones grew for the fourth consecutive quarter until the third quarter of 2018 and feature phone remains a sizeable market which contributed to 23% of the total handset shipments. The report also mentioned, the return of Nokia HMD has also fueled the demand for feature phones in the market. Nokia 3310 has been a smash hit with nostalgia and good built quality that has helped HMD to become the second largest feature phone player globally in the third quarter of 2018. Counterpoint concluded the under-penetrated emerging markets, feature phones will remain relevant for at least next five years as new low-income users would likely experience mobile phone through a feature phone first. In addition, the lack of well-established infrastructure facilities (such as electricity and high speed mobile network coverage), the introduction of 4G feature phones and the availability of social networking applications like WhatsApp and Facebook are some of all the reasons why there is still a sizeable user base for feature phones.

In addition, India has knocked Vietnam's into the third place in mobile phone manufacturing. India now accounts for 11% of global mobile phone production, according to research done by the Indian Cellular Association (ICA) announced on 28 March 2018. With the rise in mobile phone production in India, imports of the devices in India also reduced to less than half in 2018 compared with previous year due to the increased custom duty and industry insiders believe the local production is expected to increase to 90% as most brands choose to assemble mobile phones locally.

P&L (Profit and Loss)

With diffusion of innovation and technology, the smart phone industry has been already commoditised. Highly homogenous products have increased the competition in the market as it became more fragmented and modular structure of the industry has lowered the barriers for the new entrants to enter the market and offer products with high specifications for an affordable price to consumers. The smart phone industry is characterised by modularity just like the computer industry has been. The significance of modular designs has been linked to the rapid rate of innovation in the industry and contract manufacturing along with modularity has given rise to the competition in the industry as new players enter the business with the ability to produce at low cost but high efficiency. As mentioned in the above sections of "Financial Performance" and "Sales", for 2018, the year-on-year increase of sales was mainly attributable to the corresponding expansion of system assembly business of low gross margins. In particular, as mentioned in the "Financial Performance" section above and "Outlook" section below, the biggest challenge continues to be the IIDM business relating to the manufacturing of Nokia-branded products and the manufacturing and distribution of Nokia-branded phones which are still in the difficult stage of increasing volume and margin performance is generally bad. At the same time, there are changes in product mix and crowded competition in casing business (resulting from surplus capacity in the casing sector) and weak system assembly business margin and growingly high manufacturing costs, all these have induced heavy pricing pressure on the Group and hence inevitably imposed pressure on gross margins. As mentioned above, the smart phone market demand was weaker than expected especially in the last quarter of 2018, which inevitability put an enormous pressure on the Group's distribution business by demanding more resources to the channel while price erosion pressure and selling expenses increased.

In general, the Group has strived to improve efficiency and maintain a good and stable yield by enhancing production automation and asset utilisation and capacity optimisation and also quality assurance and quality control and tighter control on manufacturing overheads. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to lighten the impact of rising labour cost and enhance efficiency. The Group's dedicated and professional procurement team is leveraged to sourcing materials with competitive prices. Furthermore, there has been continuous strong support from the Hon Hai Group to offer in scale, solid component support and stable supply of key components and a vertically integrated supply chain that allows for production synergies. The Group can leverage on the Hon Hai Group's resources, giving the Group more flexibility in outsourcing capacity.

Geographical segment (please refer to note 2 of "Revenue and Segment Information")

- Asia segment:

  Asia segment was the Group's core performance contributor in terms of sales turnover and segment profit and this continued in 2018. The revenue of Asia segment in the current period was US$11,771 million, representing an increase of 14.93% from that for the same period last year (31 December 2017: US$10,242 million) and the growth was mainly due to the growth of OEM system assembly business of low margin of Chinese brand customers and an international brand. There are also sales generated by the IIDM business relating to the manufacturing and assembly of Nokia-branded products by the Group's manufacturing entities to HMD in India. In the current period, Asia segment's recorded earnings were US$224 million which were lower than the recorded earnings of US$237 million for the same period last year, mainly because of the poor gross margins. Segment profit (loss) represents the gross profit earned (loss incurred) by each segment and the service income (included in other income) after deducting all selling expenses. The margin compression risk will increase as Asia segment sales growth is driven by system assembly business which has a lower gross margin. Due to crowded competition and excess capacity in casing industry, gross margins of casing business continue to face pressure this year (especially in the second half of 2018). Amid fierce competition, China smart phone market continues to be the focus of the Group. Years ago, the Group has shifted the gravity of operations and devoted resources to Asia segment including India after the downsizing of European sites so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment (especially in India) and develop more new businesses and customers. The Group has kept active in India and the expansion of capacity in India keeps on going.

  The Group has continued to review its global capacities to optimise resources and capacity in emerging markets like India and Vietnam and further align its manufacturing capacities with the geographic production demands of customers in light of the trade war risk. The Company believed that outside Asia/Pacific, the biggest regions for growth will be the Middle East, Africa, and Latin America. All these three regions have relatively low penetration rates and plenty of upsides. In anticipation of the good opportunities mentioned above, the Group has already set up and maintained handset assembly factories in India for years and has helped certain Chinese brand customers to develop business and grasp more market shares in India and overseas markets outside of China in the past couple of years. Sales of the Group's Indian operations in the current period were about 48.53% more than that of the same period in 2017 due to the dramatic growth of the business of a Chinese brand customer in India and the start of manufacturing of Nokia-branded phones. The Group's factory operation in India is one of the largest contract manufacturers in India and the Group will continue to optimise infrastructure and capacity in anticipation of more new Chinese customers in India and the Group has injected additional capital of US$100 million in its operation in India in January 2018.

- Europe segment:

  The recorded revenue of Europe segment in the current period was US$2,026 million when compared with the recorded revenue of US$1,648 million for the same period last year. The revenue of Europe segment increased in the current period as the Group has continued to manufacture feature phones and smart phones in Asia (China, India and Vietnam) under the IIDM business relating to the Nokia-branded phones and sell the phones to HMD which is a Finnish company. But as the IIDM business started to grow a lot in the second half of 2017, comparatively speaking, this explains why YTD December 2017 sales were comparatively smaller. The recorded loss of this segment in the current period was US$369 million, when compared with the recorded loss of US$162 million for the same period last year. As explained in above "Financial Performance" and "P&L" sections, the gross margins performance for the IIDM business relating to the Nokia-branded phones was particularly bad and was making loss as there was fierce price competition and the selling price of the Nokia-branded phones to the end market had to be competitive upon its re-launching to the handset market and the Group's as a partner to HMD, the selling price and gross margins of phones manufactured by the Group was under huge pressure as there was no economy of scale yet in terms of sourcing as the business was still at the stage of building up momentum and scale rendering the Group unable to buy at competitive prices from suppliers and the BOM cost was higher than the selling price. TNS sells and distributes some of the handsets throughout the European markets for HMD and earns distribution service income. The performance of Europe segment has deteriorated dramatically which has affected the performance of the Group adversely and the Group has been monitoring more closely and then assess the impact of the loss-making of this segment on the Group's overall performance and cash flow and make necessary adjustments to business strategy.

- America segment:

  For America segment, because of the loss of market shares and change of outsourcing strategies, certain key customers of the Group which previously shipped a lot of products to America segment have reduced their orders in the Group since 2016, thus leading to further shrinkage of sales of America segment in 2017, thereby further adversely affecting performance of this segment. In 2018, the recorded revenue of America segment in the current period was US$1,134 million when compared with the recorded revenue of US$190 million for the same period last year and the year-on-year increase came from the increase of sales to a U.S.-based Internet customer. Core businesses (both now and under development) of American segment entities in the U.S. and Mexico are mainly provision of services including reverse logistics, repair and refurbishment of smart phone for OEMs and carriers and sales of phones to small U.S. customers. The recorded earnings for the current period were US$36 million when compared with the recorded earnings of US$28 million for the same period last year. The performance of America segment did not have a significant adverse impact on the Group's overall performance as the focus of the Group has shifted to Asia segment and IIDM business of Europe segment and sales and earnings of America segment now have become insignificant to the Group's overall sales and bottom line. But in 2019, significance of America segment may increase as there is a new U.S. customer.

Investments

On the basis that the value of each of the investments mentioned below as at 31 December 2018 does not exceed 5% of the Group's total assets as at 31 December 2018, the Group does not consider any such investment as a significant investment for the purposes of the Listing Rules.

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

Investments in New Business relating to Nokia-Branded Products

On 18 May 2016, the Group entered into an agreement with Microsoft (as seller) and HMD (as another purchaser) to acquire certain assets of the feature phone business then operated by Microsoft Corporation, comprising a manufacturing facility in Vietnam and certain other assets that were utilised in the conduct of such feature phone business at a total consideration of US$350 million (US$20 million of which being payable by HMD). This transaction included goodwill of US$79.4 million. Due to the unsatisfactory performance in 2018 and based on the valuation carried out by independent professional valuer, the Group has fully impaired the goodwill of US$79.4 million, HMD has been engaging exclusively in the Nokia-branded products business, and the Group has continued to develop business with HMD covering primarily the manufacture of feature phones and smart phones together with accessories in Asia (China, India and Vietnam) under the manufacturing agreement between HMD and the Group.

In second quarter of 2018, HMD started shipping the next generation portfolio of Nokia 3.1, Nokia 6.1 and 8110 4G worldwide. HMD has received great consumer feedback about new generation products. On top of this, HMD introduced Nokia X6 in China as a smart phone specially addressing the new age Nokia phone users in Chinese market. In second half of 2018, HMD launched 3rd generation of Nokia smart phones: Nokia 3.1 Plus, Nokia 5.1, Nokia 7.1 and Nokia 8.1, which also received great feedback from consumers especially about design and camera features of Nokia 8.1.

In January 2019, HMD launched collaboration with three leading wireless providers in North America — Cricket Wireless and Verizon in the U.S. and Rogers Communications, Inc. in Canada.

2018 was the second operational year for HMD global Oy. HMD continued experiencing strong revenue growth driven by the price point expansion in smartphone portfolio and feature phone business achieving #1 position in the global market. In general smartphone market was declining year over year and more visibly in China. This market size decline further fueled price competition and it was most likely motivated by industry level excess inventory and liability clearance. HMD was not immune for this market phenomenon and it was reflected in profitability during the second half of 2018. At the same time strong USD was difficult to manage without cutting margins. This headwind impacted HMD Smartphone volume ambition in the second half of 2018 and thus some fixed nature commitments were further hitting negatively in reported gross margin. This gross margin decline was partially managed by reducing investment level. OPEX (Operating expense) run rate was managed well half over

half to reflect lower margins from smartphone business. At the same time marketing investment profile was naturally weighted into first half of 2018 due to timing of majority of product launches. Feature phone business was very stable and small ASP (Average Selling Price) drop was offset by volume growth.

In May 2018, the Group invested US$62 million in HMD, which represented about 6.2% (calculated on as-converted and fully-diluted basis) of the total issued shares of HMD as at 31 December 2018. The Group has designated the investment in HMD as fair value through other comprehensive income ("FVTOCI").

The Group previously invested US$2.5 million in an exempted limited partnership registered in the Cayman Islands with its sole activity to invest in HMD. The Group's total investment represented about 29.76% of the partnership as at 31 December 2018. After IFRS 9 became effective in 2018, the Group has designated the investment as FVTOCI for which independent professional valuer was engaged by the Group to perform the valuation.

Other Major Investments

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

The Group invested in Mango International Group Limited ("Mango"), a company which offers mobile services in the tourism sector. The Group's total investment in Mango represented about 17.84% (calculated on as-converted and fully-diluted basis) of the total issued shares of Mango as at 31 December 2018 and it is booked as Interest in an Associate subject to impairment testing. Mango successfully received a new investment in April 2018, and also received a term sheet for further financing in 2019 to finance their global roll-out plans. Although Mango expects the above mentioned fund raising will be secured, by the date that finalizing this announcement, the potential investor of Mango is still working on due diligence and Mango is approaching other potential investors hence no funding has been received. The investment team will keep monitoring the progress of Mango's funding and act in the best interests of the Group. The Group engages an independent professional valuer to estimate its share of the present value of the estimated future cash flows expected to be generated from Mango, including the expected dividend income from Mango and the proceeds from the ultimate disposal of the investment. Considering the material uncertainties and doubts of going-concern, the Group has decided to fully impair the carrying value of the Group's investment in Mango amounted to US$77.2 million. In performing the fair value measurement of convertible notes, the management has subsequently exercised the Group's right, while considering Mango's ability to continue as a going concern and its repayment capacity, a fair value loss of US$44.8 million was recognised for the convertible notes during 2018.

The Group invested US$24 million equity investment in Meitu, Inc. since 2014 (the shares of which are listed and traded on the Stock Exchange with stock code: 1357, "Meitu" in 2016), which is a leading mobile internet platform company engaged in photo and video applications. In 2018 the Group disposed of all the remaining shares to maintain a healthy cash flow for its core business and control future impact from the change in fair value. Therefore, the Group received a total of US$40 million in value for its initial US$24 million investment. After IFRS 9 became effective in 2018, the Group has designated the investment in Meitu as fair value through profit or loss ("FVTPL"). As at 1 January 2018, US$55 million of unrealised revaluation gain for its share price growth in the market previously recognised as "Other Comprehensive Income" was reclassified to "Retained Profits" by the Group, while there is US$54 million fair value loss recognised in 2018 since the share price decreased by around 80% during the period.

In August 2016, the Group invested approximately US$50 million in Hike Global Pte. Ltd. ("Hike"), an Indian-based social media application developer. Hike built up an instant peer-to-peer messaging application with localised lifestyle functions. In 2018, MAU/DAU (Monthly Active User/Daily Active User) of various functions and content did not meet Hike's expectation, so Hike continuously introduced multiple types of content (e.g. hike daily, stickers, gifs, banners, etc.) to further improve user experience on its core products. In addition, Hike launched new apps to enhance its overall MAU base. With sufficient capital, Hike would keep improving the core products especially the social content, and try to develop more valuable products and services for the users in the future. Based on the performance in 2018 and the adjustment for the future cash flow, the Group decided to recognise appropriate fair value loss to its investment. The amount is measured using the fair value model based on a valuation performed by an independent qualified professional valuer (the "Valuer"). In determining the fair value of the investment in Hike, the Valuer has applied income approach. The income approach was considered to be an appropriate valuation approach in the valuation, as it takes the future growth potential and firm-specific issues of Hike into consideration. Under the income approach, the discounted cash flow (DCF) method is adopted in the valuation. The DCF method is the most fundamental and prominent method of the income approach. In applying the DCF method, the free cash flows of the subject asset in future years are determined from the net income after tax plus non-cash expenses, such as depreciation and amortisation expenses, and after-tax interest expense; the result is then less non-cash incomes, investment in capital expenditure and investment in net working capital. After IFRS 9 became effective in 2018, the Group has designated the investment in Hike as FVTOCI.

Other Investments

The Group invested about US$5 million in Razer Inc. (the shares of which are listed and traded on the Stock Exchange with stock code: 1337, "Razer"), a leading global lifestyle brand for gamers, with dual headquarters in San Francisco and Singapore. Razer is one of the most recognised brands in the global gaming and e-sports communities. The company has designed and built the world's largest gamer-focused ecosystem of hardware, software and services. In May 2018, Razer completed the acquisition of Malaysia's MOL Global, Inc. ("MOL") to engage in an e-payment platform in Southeast Asia for gaming ecosystem and increased its service revenue. MOL's payment gateway is also utilised by some of the most prominent and fastest-growing companies such as Lazada, Grab and UNIQLO. In October 2018, AT&T signed up as the first U.S. carrier to launch Razer Phone 2. Although the company did not reach its breakeven point in 2018, the Group believes that Razer will keep expanding its

product lines and cooperate with the Group to create a comprehensive and seamless gaming experience for its global users in 2019 due to the large and growing gamer TAM ("Total Addressable Market") and Razer's unique combination of brand, ecosystem and global footprint. As at 1 January 2018, US$6 million of unrealised revaluation gain for its share price growth in the market previously recognised as "Other Comprehensive Income" was reclassified to "Retained Profits" by the Group since the initial application of IFRS 9. After IFRS 9 became effective in 2018, the Group has designated the investment in Razer as FVTPL. There is US$8 million of fair value loss recognised in profit or loss during 2018 since the share price decreased by around 73% during the period. As at 31 December 2018, its fair value amounted to US$3 million and represented about 0.26% of the total issued share of Razer.

The Group invested in CExchange, LLC ("CEx"), which engages in the business of consumer electronics trade-in and buy-back in the U.S. since 2014, for a cumulated US$11.8 million in the past few years. In 2018, the loss of a significant customer and low sales volume impacted CEx's overall income, which resulted in a sustaining loss. Thus, the Group has decided to recognise a full impairment loss on investment in CEx amounted to US$7 million.

The Group also made certain investments in other companies designated as FVTOCI mainly in the PRC, India and the U.S. in the past few years. In PRC, the Group's investments mainly include a distributor of mobile devices and accessories, which is quoted and traded on the PRC's NEEQ (National Equities Exchange and Quotations) and an operator of cloud-based systems for intelligent robots since early 2015. In India, the Group's investments mainly include a data-driven advertising technology company. In the U.S., the Group's investments mainly include a digital photography company that has developed a multi-lens and multi-sensor camera designed for embedding in smart phones and mobile devices, and a high-end Android smart phone company led by a group of experienced experts in the mobile industry. As at 31 December 2018, the total fair value of Group's equity investments designated as FVTOCI was US$119 million, which representing 1.34% of the Group's total assets.

Other Investment-Related Matters

In such a dynamic and volatile equity investment market, the Group's investment team is cautious always, and therefore the team will continue to monitor the performance and financial position, cash flow, burn rate and fund-raising activities of investees, related macro-economic factors and competition landscape and technological changes and innovation, viability of business models as well as execution capabilities of the respective management teams of those investees. In 2018, The Group had disposed of some investments in listed companies, and also impaired a few investments which had less than ideal performance. The investment team maintains a close relationship with the managed investees, and conducts periodical in-house analyses. Based on the result of the analyses, the investment team will consider hedging the risk exposure should the need arise. The Group currently expects no substantial loss arising from the change in the total fair value of the Group's investments in certain listed companies in 2019.

In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring and evaluating good investment potential opportunities that can add value to the Group and the Group's investment strategies will be adjusted to be more focused on 5G and AI for building up the phone ecosystem portfolio including but not limited to IoT (Internet of Things) smart devices, smart home products, online gaming or others for synergies creation via establishing strategic partnerships with technology companies. Among the characteristics that we look for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations; favourable long-term growth prospects; and cultural fit with the Group. The Group has an experienced investment team and will continue to hire talents and has prioritised investments of comparatively low risks and with long-term growth prospect which may take years before the investment can be realised. As a whole, the Group will be cautious on expanding its investment portfolio to create synergies but at the same time to cope with the possible uncertain economic environment and volatility of the capital market in 2019.

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

Compliance with Relevant Laws and Regulations

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

The Group has been operating multi-nationally (coupled with investments) in its principal operating segments, namely Asia, America and Europe. In particular, the Group's legal structures, investment structures, funding arrangements, business models, supply chain and general operations have been structured and optimised in a tax-efficient, cost-effective and robust manner, taking into account (among other things) commercial and financial perspectives and applicable legal/regulatory requirements in multiple jurisdictions. In this respect, the Group's major operating subsidiaries fall under different tax regimes in the PRC, Taiwan, India, Vietnam, Finland, Mexico and the U.S. where different tax laws and regulations as well as specific concessionary incentives apply. During the current period, the newly-promulgated local tax laws and regulations that have a significant impact on the Group are highlighted and summarised as follows:

- PRC

  For VAT (value-added tax), by way of background, in May 2016, VAT reforms were implemented nationwide replacing the previous business tax. VAT was extended to the sale and importation of goods and provision of services in or to the PRC, including construction, real estate, finance and consumer services. The unification of a single VAT system enabled businesses which were already VAT taxpayers to generally be able to claim input VAT credits for the goods and services they purchased or consumed from

those sectors that were VAT taxpayers, and businesses, as general VAT taxpayers, became eligible to claim input VAT credits for the goods and services they purchased or consumed. 2018 began with a war on customs duties that shocked the world economy. To avoid kickbacks and further stimulate the economic growth via reducing tax burdens on enterprises, the PRC State Council decided to reduce the current VAT rate, and on 4 April 2018, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) jointly issued a new circular (Caishui [2018] No. 32, or Circular 32) to reduce the VAT tax rate for manufacturers from 17% to 16%. From an enterprise's perspective, this VAT reform is good news and is favourable to the Group as less cash will be needed for domestic purchases.

There are also other tax cut measures. For example, on 7 May 2018, the MOF and SAT issued a regulation (Caishui [2018] No. 51) to increase the maximum tax-deductible employee education fee from 2.5% to 8% of total salaries. The excessive portion could be carried forward to next year(s) for tax deduction purposes. The new cap of yearly tax-deduction rate is applied from the year 2018 and onwards. Also, to encourage investments in R&D, during the period from 1 January 2018 to 31 December 2020, equipment or machinery, newly purchased for R&D activities, is eligible for a 100% immediate tax deduction for CIT (Corporate Income Tax) purposes, on the condition that the unit price of each item of equipment or machinery is individually less than RMB5 million (previously RMB1 million under SAT Announcement [2014] No. 64). Additionally, on 22 September 2018, the MOF and SAT issued a new circular (Caishui [2018] No. 99) giving a super deduction of 175% of the R&D expenditure before tax. From an enterprise's perspective, these tax cut measures have worked in the Group's favour at least to reduce the Group's PRC tax expenses to a certain extent.

- India

  BCD (Basic Customs Duty) on imported mobile phones was increased gradually from 0% to 20%, aiming at encouraging the Indian Government's "make-in-India" initiatives. The new regulation is in favour of the Group as it has already established a very large scale mobile phone manufacturing capacity in India for existing and potential customers. However, with effect from February 2018, BCD on certain imported parts of and ancillary to mobile phones (such as antenna, battery, mechanics, headphones and USB (Universal Serial Bus) cables) has been increased from 10% to 15%. Also, since April 2018, the Indian Government also imposed BCD on imported specified parts of and ancillary to mobile phones (such as PCB (Printed Circuit Board), connectors and camera modules). As the Group has established its SMT (Surface Mount Technology) line in India, the Group has started offering domestic PCB manufacturing services to its customers to mitigate the impact of BCD. For the imported parts impacted by BCD, the Group continuously works with its customers to procure the corresponding parts domestically.

- The U.S.

  For U.S. tax reform and tax cut, the Group considers that there will not be much impact on the Group as the U.S. tax exposure from the Group's operation is comparatively small.

Apart from the above, the Group also takes into account the relevant laws and regulations regarding transfer pricing, in order to ensure efficiency and sustainability of the operating models and global tax footprint as well as sufficient tax risk management. During the current period, apart from the above, there were no major changes in applicable tax laws and regulations which have a significant impact on the Group's tax expenses, and the Group will continue to monitor possible impacts and implications arising from applicable new and/or revised tax laws and regulations. Also, the Group has been closely following the global and local level developments following the Base Erosion and Profit Shifting (BEPS) Action Plans of the Organisation for Economic Cooperation and Development (OECD). The Group is committed to duly comply with applicable laws and regulations introduced or updated due to the BEPS Action Plans, including the increased documentation requirements triggered by the local transfer pricing documentation and CbCR (Country-by-Country Reporting) obligations in the jurisdictions where the Group operates. The Group falls into the CbCR scope of the Company's ultimate controlling shareholder Hon Hai for such purposes.

The Group has kept abreast of the accelerating pace of tax, legal and regulatory developments in the different jurisdictions in which its key operations are located, and there are on-going reviews of existing investment holding structures and operations as well as business models and capital structures in light of the latest tax, legal/regulatory and business requirements and environment. In this respect, the Group's major operating subsidiaries have taken appropriate steps (e.g. by consulting with legal advisers) to ensure that each of them is aware of the local laws and regulations that have a significant impact on its business operations and takes these relevant local laws and regulations into account in relation to its business operations, business model(s) and value chain management, as appropriate. The Group believes that it complies with applicable relevant local laws and regulations in all material respects. The Group has also complied with applicable requirements laid down by the Listing Rules and the SFO.

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

In relation to the Group's compliance with the relevant laws and regulations that have a significant impact on the Group in respect of environmental, social and governance aspects, please refer to the Company's separate 2017 environmental, social and governance report issued and published on 9 April 2018 as well as the Company's separate 2018 environmental, social and governance report to be issued and published simultaneously upon the issuance and publication of the Company's 2018 annual report (which is tentatively scheduled to take place in April 2019).

The Group will continue to monitor compliance with all these relevant laws and regulations on an on-going basis.

Liquidity and Financial Resources

As at 31 December 2018, the Group had a cash balance of US$1,419 million (31 December 2017: US$1,980 million). Free cash flow, representing the net cash used in operating activities of US$814 million (31 December 2017: US$113 million) minus capital expenditure of US$277 million (31 December 2017: capital expenditure and dividends of US$362 million), was US$1,091 million outflows (31 December 2017: US$475 million outflows). Free cash flow deteriorated during the current period. The Group has abundant cash to finance its operations and investments. The Group's gearing ratio, expressed as a percentage of interest bearing external borrowings of US$1,427 million (31 December 2017: US$713 million) over total assets of US$8,904 million (31 December 2017: US$8,788 million), was 16.03% (31 December 2017: 8.11%). All of the external borrowings were denominated in USD (31 December 2017: USD). The Group borrowed according to real demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest bearing external borrowings were all at a fixed rate ranging from 2.76% to 4.40% (31 December 2017: fixed rate ranging from 1.72% to 2.40%) per annum with an original maturity of two to twelve months (31 December 2017: one to six months).

As at 31 December 2018, the Group's cash and cash equivalents were mainly held in USD and RMB.

Net cash used in operating activities for the twelve months ended 31 December 2018 was US$814 million.

Net cash used in investing activities for the twelve months ended 31 December 2018 was US$379 million, of which, mainly, US$277 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites mainly in the PRC and India, US$37 million represented placement of bank deposits, US$3,087 million represented purchase of short-term investments, US$68 million represented purchase of equity instruments at FVTOCI, US$10 million represented proceeds from disposal of property, plant and equipment, US$24 million represented proceeds from disposal of equity instruments at FVTPL and US$3,056 million represented proceeds from settlements of short-term investments.

Net cash from financing activities for the twelve months ended 31 December 2018 was US$703 million, primarily due to net increase in bank borrowings of US$729 million and interest paid of US$26 million.

Exposures to Currency Risks and Related Hedges

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

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

Capital Commitments

As at 31 December 2018, the capital commitments of the Group was US$7.9 million (31 December 2017: US$4.3 million). Usually, the capital commitments will be funded by cash generated from operations.

Pledge of Assets

There was no pledge of the Group's assets as at 31 December 2018 and 31 December 2017.

Donations

The Group has, in the financial year ended 31 December 2018, made donations for charitable or other purposes to a total amount of approximately US$58,000.

Outlook

Smart phone shipments growth hits the ceiling and has been continuously slowing down since 2017. Although there are still opportunities from the implementation of the fifth generation communication technology (5G) and industrial innovation, the risk of saturation in the smart phone market remains high. Competition would therefore be increasingly intense, among OEMs as well as along supply chains, leading to price declines and affecting revenues and margins.

The tension of the trade war between the U.S. and China escalated to a historical high when both sides have imposed tariffs on billions of dollars' worth of goods. The U.S. has hit $250 billion of Chinese goods with tariffs since July, and China has retaliated by imposing duties on $110 billion of U.S. products. In the recent progress, a 90-day halt in trade tariffs to allow for talks was agreed at a post-G20 summit meeting in Buenos Aires on 2 December 2018, U.S. President Trump agreed not to boost tariffs on US$200 billion of Chinese goods from 10% to 25% on 1 January 2019 and China President Xi Jinping agreed to buy a "very substantial" amount of agricultural, industrial and energy products to reduce the trade imbalance between the two countries, and Trump also announced a delay in tariff hike on Chinese goods on 24 February 2019. Fortunately, the U.S.-China trade war has not yet directly affected mobile phones as no tariffs being imposed, yet the Group will closely monitor the progress of the trade war and thanks to the Group's global mobile phone production capability, our customer would have the alternative to manufacturing outside of China.

The Group will closely monitor the resulting impact. It is good that the Group now has expanded its ups in India and Vietnam.

For handset market forecast, please refer to the "Sales" section. From market perspective, phones are now more capable and durable, which will extend the replacement cycle and consumers are not compelled to upgrade quickly. The market showed a matured growth pattern. As mentioned above, the Asia segment, with China as the focus, remains the Group's core performance contributor. For China, the world's largest smart phone market which represents roughly one third of all smart phones consumed, has been in decline since the second quarter of 2017, and the last quarter of 2018 was the seventh consecutive quarter where the market sees contraction with the shipment down by 10.5% in 2018 (worse than the 2017 downturn) according to the latest report published by IDC on 14 February 2019.

Although the Chinese market is shrinking, the top five brands can be comforted by the fact that it will continue to consolidate, and that their size will help them last longer than other smaller players. As a matter of fact, the top five brands acquired 88.9% of China domestic market share in the fourth quarter of 2018 when compared with 82.1% for the same period of last year. With the saturated smart phone market, competition among Chinese vendors will become fiercer. The rapid shift among certain Chinese OEMs may impact overall demand of the Group's end markets and future demands of the products and services to be provided by the Group. The Group's customers are striving for greater market share in the saturated market and hence the pricing of their products in the end market must be very competitive. In order to get adequate allocations from the customers and compete against players in the market, the Group has to accept the low gross margins of system assembly business with major customers. Similarly, as mentioned above, the profit margin of the casing business is also under pressure. As explained in financial performance section, due to excessive investments in mechanical capacities, the change of product mix and IMT (In-Mould Transfer) technology on plastic casing in casing industry, our peers faced similar above risks, and reported either a huge net profit decline or even net loss caused by the sluggish smart phone demand especially from the second half of 2018.

The decline in the Chinese market in 2018 led some key Chinese brands to internationalise and invest in countries and regions outside China to offset the weak demand in the domestic market. The key markets for Chinese brand expansion so far are India, South-East Asia, Europe, the Middle East and Africa. The Group has helped these Chinese brands to expand and internationalise rapidly in overseas markets, and these customers want to leverage on the Group to extend their footprints in India and other emerging markets. Since 2015, given the Group's leading industry experiences in managing Indian operations and providing a wide range of services in most parts of the value chain, the Group has been expanding its local manufacturing service and component supply chain support in India to benefit from the Indian government's "Make-in-India" initiatives, which can address both the domestic Indian market and export demands. The Group had injected approximately a total of US$150 million to cater for business expansion in the region and additional working capital needed as announced in January 2018 and October 2018.

From product perspective, with the popularity of innovation and technology, the smart phone industry has become commoditised and highly homogenised products with standardised specifications have increased market competition as it is more fragmented and the modular industry structure has lowered the entry barriers. The smart phone matures as an application, driving innovation in design and features and appearances. IDC announced a feature prediction towards China's smart phone products in the next few years, including a larger amount of RAM, higher penetration of OLED screen, under screen fingerprint, artificial intelligence (AI), facial recognition, AR/VR/3D modeling and 5G functionalities, and in 2022, the average unit price of the overall smart phone will reach US$416, an increase of 28% compared with 2018, yet the replacement cycle will be lengthened. In anticipation of 5G technology, innovations in the smart phone glass surface and casing are key to success. Smart phone casing manufacturing is the core competence of the Group, and we have to continue to invest in the future and be committed to developing engineering capabilities and new technologies and solutions (such as new innovative materials). However, the gross margins of casing sales will inevitably deteriorate due to overcapacity in the machinery business sector caused by industry participants' excessive investment in machinery capacity in previous years and the shift in casing design from being dominated by metal to IMT. It is expected that casing sales and gross profit will continue to decline into 2019.

As the smart phone industry is dynamic and competitive, a slowdown in growth may lead to industry consolidation, which may result in larger and more geographically diverse competitors having significant combined resources to compete against the Group and may put pressure on the supply chain. As competition remains fierce, competition from EMS/ODM/OEM peers is deemed to intensify to create pressure on the Group's business and there may be slower new customer gain with rapidly growing smart phone vendors. The Group also faces competition from the manufacturing operations of its current and potential customers (including the Group's strategic partner, HMD), whom are constantly evaluating the advantages of manufacturing products in-house against outsourcing, OEM against ODM. All of these developments could potentially cause pressure on the Group's sales and the sales mix and margins, loss of market acceptance of its services, compression of its profits or losses, and loss of its market share. To address the above challenges and uncertainties and to alleviate the impact of price erosion on gross margins, the Group must remain lean and make business and operational decisions promptly. The cycle time of new product development must be shortened to align with the product launch schedule of customers and shorten the time to market. Despite the increase in revenue due to increase in system assembly business, there has been pressure on gross margins.

To meet its customers' increasingly sophisticated needs, the Group has continuously engaged in product research and design activities to manufacture its customers' products in the most cost-effective and consistent manner, and focused on assisting its customers with product creation, development and manufacturing solutions and further strengthened IDM competence. The Group has dedicated PD (product development) / PM (product manufacturing) and R&D team whom have developed a full range of smart phones and feature phone products with innovations in industrial design, camera and audio applications to differentiate the Group's products from market competition and enable the Group to penetrate global mobile market share. The Group has fully utilised the strength of the Hon Hai Group in vertical integration for product creation. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Group, providing scale, solid experience and control in key components) are especially attractive for Chinese brands. The R&D team will continue to innovate on industrial design, image and audio quality and user experience and AI technology and innovate existing and new mobile products and to focus on user experience in social media and establishment of ecosystem. The R&D team leverages on the entire product portfolio of mobile and wearable devices to address the opportunity for consumer IoT market and differentiate the IoT products with advanced voice user interfaces, better audio and video features. The Group had made further investment in R&D of new technology to ensure future business momentum and identify and address the changing demands of customers, industry trends and competitiveness.

As explained in the "Financial Performance" section, the Group's gross margins of the new business is subject to extremely huge pressure as the Group has to sell smart phones at aggressive and competitive prices to HMD and the Group also faced tremendous pressure from absorbing the R&D cost, indirect labour cost and marketing expenses in distribution channel development. In light of the poor performance of the Group in the past two years and the difficulties ahead in 2019 and the need to maintain a healthy cash flow, the Group implemented a loss cutting initiative and a cost down exercise to cut its overheads and operating expenses in order to build a long-term sustainability in the highly competitive mobile phone market. The Group's partner, HMD which also recorded poor performance came to a strategic decision that HMD will not only seek for the Group's support but also contracts

other ODMs to enhance its supply chain flexibility and cost and price competitiveness. As there was change to collaboration model between the Group and HMD, the Group decided to discontinue its distribution business and cut the headcounts and consequently terminates the customer and distributor agreements of distribution business to save costs. In 2019, the Group will continue to manufacture HMD's second and third generation/wave smart phone products until the end of the product lifecycle and design and manufacture Nokia-branded feature phone programs and smart phone programs of satisfactory margin and the Group expects the change in the collaboration model will gradually decrease the sales to HMD but at the same time it would steadily improve its gross margin and the sale drop to HMD can be partially offset by sale to the new U.S. internet company .

Besides the improvements and actions in relation to the Group's operating expenses, the first three generations of Nokia-branded smart phones have been introduced in the market for a period of time. When those generations of products of which performance in gross margin has been poor are approaching the end of their life cycle, the gross loss is expected to be lesser in the first half of 2019.

In addition, as mentioned in the "Investments" section, the Group has taken necessary actions to control future impact from the change in the total fair value of the Group's investment in listed companies. The Company has evaluated the possible alternatives to maximise the benefits (financial, operational and otherwise) from the Group's investment in Meitu. The Groups has disposed all of its holding in Meitu's ordinary shares in 2018 and thus the Company currently expects no substantial loss arising from the change in the total fair value of the Group's investments in other listed companies in 2019.

The mobile phone manufacturing business is facing various new challenges (both external and internal) which have not been encountered before. The saturation of the smart phone market has also exerted tremendous pressure (margin erosion) on the entire handset industry. The Group has been doing OEM and ODM and IDM for mobile phone manufacturers for years. The growth rate of China's smart phone market has been declining and China's smart phone market has continued its shrinking situation with shipment since the fourth quarter in 2017. On the other hand, the decline in the OEM industry is also driven by the trend of China's capacity transformation. The rise of China's OEM mainly benefited from the low labour costs, which have been difficult to sustain since 2014. China domestic labour costs have risen sharply yet the efficiency of assembly line workers has not increased correspondingly and the cost advantage of China is no longer comparable with other countries in Southeast Asia. On 21 January 2019, China released its annual GDP figures, along with a slew of other economic data for the final month of 2018. According to China's National Bureau of Statistics, the GDP growth was 6.6%, just slightly above the 6.5% target set last year, and the growth rate is the slowest pace in nearly 30 years. Economists further predicted the GDP growth might be worsen in recent years as Chinese consumer anxious about the weaker global economy and the ongoing U.S.-China trade war. In fact, Chinese government has already anticipated a weakening economic as China's political bureau, the Politburo met and called for the country to maintain a "six stability policy" — stable employment, stable finance, stable trade, stable foreign investment, stable investment, and stable expectations on 20 July 2018. On 13 December 2018, the Politburo met on the preparation of 2019 economic policy and re-emphasised the six-stability policy. In a longer term, China's goal is to get higher on the global value chain, since currently, the export-driven economic structure keeps the level of products with relatively low added values. It is a serious problem that only a fraction of the

profit on countless products stays in the country because added value is low which is typical for the system assembly business. The model based on domestic demand works in a much more complex way than the mostly export-driven one. The recent trade war of China with the U.S. especially highlighted the need of changing the mix of China's GDP. China's traditional OEM and manufacturing industry is facing huge challenges and the support from the government is declining and the industry has to transform in order to survive and has to upgrade from an existing "world factory" to the "artificial intelligent leader" and doing automation is a must. That is the reason why the Company is introducing the "Industry 4.0" smart manufacturing paradigm to reduce manufacturing costs. But of course, it needs time to implement Industry 4.0 and the Group is now making effort on this.

Looking ahead, the Company understands the tremendous challenges in 2019. The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to cope with all these challenges and uncertainties from time to time as well as to maintain and enhance its performance. For details, please refer to the "Accountability and Audit" section of the corporate governance report to be contained in the Company's 2018 annual report (which is tentatively scheduled to be published and issued in April 2019).

Regarding key risks faced in 2019, please refer to the major risk items below.

Risks Pertaining to the Handset Business

As mentioned above, there is a year-on-year decline in handset shipment and the market is saturated. As a result, the general state of the global economy, trade war, protectionism, custom duty hikes, market conditions and consumer behaviour and the risk that our customers are not successful in marketing their products or that their products do not gain widespread commercial acceptance may have a significant impact on customers and the Group's operating results and financial conditions. To tackle this, the Group has to control BOM costs and manufacturing costs and improve gross margins performance and monitor impact of factors affecting business of customers and its financial health. For the Nokia-branded business which needs time and effort to secure its long-term sustainability, the Group has become selective when receiving orders from HMD.

Risk Associated with U.S.-China Trade War

Although the direct impact of tariff increase on smart phone supply chain is limited, the unpredictability of U.S. President Trump's future act adds to the uncertainty and will hurt market sentiment. Regarding smart phone supply chain, since the assembly of smart phones of both overseas brands and Chinese brands are mostly done by ODMs in China, the increased tariff will only be applied to the part exporting to the U.S., while all the other parts like component suppliers' shipping to domestic ODMs or ODMs' shipping to regions outside the U.S. will not be affected. While Chinese smart phone brands only have minimal shares in the U.S. market, this is under very small impact. Accordingly, the overall impact on smart phone supply chain is limited even if the tariff is increased. U.S. mobile phone market is dominated by mobile operators, and most Chinese smart phone brands so far have not yet built a relationship with the U.S. mobile operators and their shipment to the U.S. is minimal. The Group will continue monitoring the impact and devise counter measures if necessary.

Reliance on Key Customers

The Group's five largest customers, accounts for 86.8% of the Group's total revenue and has strong established relationships with these major customers. Please refer to section headed "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and our actions to manage such risk. The majority of the Group's trade receivables are from the key established customers whom the Group has strong established working relationships. The credit terms granted to them are in the range of 60 to 90 days and are in line with those granted to other customers. As part of the audit procedures, subsequent settlements of trade receivables after the year-end have been reviewed and are satisfactory, requiring no provision. As market is volatile, the Group will keep monitoring credit position of customers.

Reliance on Key Suppliers

Please refer to the "Key Relationships with Customers, Suppliers and Employees" section for the details of our assessment of the risk presented to the Group and how to mitigate such risk.

Foreign Exchange Risks

Please refer to the "Financial Performance" section for the details on how to mitigate such risks.

Cyber Risk Controls

Regarding cyber risk, the Group has in place an information security policy which provides adequate security controls and protection of the financial data and business information. IT department has published a handbook which requires employees to follow so that the cybersecurity risks can be managed and controlled across the organization (particular for the network control). Besides, IT department has a procedure and guideline in place enabling them to respond immediately when a cyber-attack is detected. For the network control, all the computer servers are located in a Local Network Area (Intranet) using redundant firewall design. Besides, there is a Global Security Operation Centre (GSOC) which helps manufacturing and functional units monitor their network to ensure any attack to the computer system can be detected immediately and IT department prepares a monthly report to report if any incidence of cyber-attack has been detected. In addition, IT department has a disaster recovery plan and procedure in place to ensure immediate and effective responses/actions can be initiated when there is an attack to minimise potential harmful impact/losses and operation can be restored rapidly to avoid any business interruption and enable continuing running of business operations of the Group.

On the basis of a preliminary review of the Group's latest unaudited management accounts and other information currently available, the Company expects that the Group is likely to record a consolidated net loss for the six-month period ending 30 June 2019 (the Group recorded a consolidated net loss of US$348,567,000 for the six-month period ended 30 June 2018), primarily because of various factors highlighted in the Company's profit warning announcement dated 2 November 2018 and announcement dated 22 February 2019 on additional inside information relating to last profit warning. The Company expects that the challenging conditions the Group has faced since late 2017 and into 2018 may continue into 2019. However, it also expects that operating expenses should reduce, and pressure on the Group's gross margins generally ought to ease, over the course of 2019, and for the time being, it expects that the Group's operating loss in the first half of 2019 will be reduced when compared year-on-year. At this stage, on the basis of a preliminary review of currently available information, the Company is unable to reasonably and meaningfully estimate the likely magnitude of such expected loss. The Company will make further announcement(s) in compliance with the Listing Rules and/or the SFO, as appropriate.

The Company's shareholders and potential investors should note that the Company is in the process of reviewing the Group's consolidated interim results for the six-month period ending 30 June 2019. The information in this announcement is the result of a preliminary assessment by the Company's management based on the Group's latest unaudited management accounts and other information currently available. That information is subject to possible adjustments following further internal review, and is not based on any figure(s) or information which has/have been reviewed by the Company's auditors or audit committee. The Group's 2019 unaudited consolidated interim results and other related details will be disclosed in the Company's 2019 interim results announcement, which is tentatively scheduled to be published in August 2019.

In the meantime, pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose in due course (which is expected to be in or about May 2019) certain unaudited consolidated financial information of the Group for the three months ending 31 March 2019, and simultaneously upon such disclosure in Taiwan, the Company will announce the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan.

The Company wishes to take this opportunity to reiterate that the Group's quarterly performance may fluctuate (possibly significantly) as a result of a number of factors. For example, performance over certain periods may vary as a result of a combination of changes in the macro-economic environment (e.g. intensifying trade wars and political conditions) and industry generally and related changes in consumer demands, seasonality of sales, factors relating to the supply chain (e.g. components costs, sourcing and shortage) and to inventory (e.g. accumulated inventory may take time to clear and may have to be written-off), and customers' credit risks, product launch or product recalibration strategies and possible cancellation or delay of customer orders or change of production quantities and certain customers' products having short product life time volume, market competitiveness and shifts in customers' demands and preferences (e.g. in-house manufacturing instead of outsourcing), changes in money markets (e.g. fluctuation of interest rates and foreign exchange rates) and capital market, sales and product mix changes, commodity price changes, technology

advancement, and legal/regulatory/tax/government policy changes. Other factors can also give rise to uncertainty. For example, the Group's financial exposure to market volatility (e.g. RMB and INR and other currency volatility, stock market volatility) can result in gains or losses; likewise with respect to any future impairments of property, plant and equipment, goodwill or intangible assets and equity investments, and the timing of dispositions of equity investments and resulting profits/losses, and the performance of the Group's associates and its share of those associates' profits/losses, renewing or meeting the conditions of any tax incentives and credits, and the timing of receipt of incentive income, can all (individually and collectively) affect quarterly performance.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 10 May 2019 to Friday, 17 May 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 9 May 2019.

CORPORATE GOVERNANCE

The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2018 to 31 December 2018.

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

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

Since the resignation of Mr. Tong as the chairman of the Company, the Company has been searching for the right candidate to fill the position of chairman of the Company. However, given the importance of the role, the Board expects that it may take some time before the Company is able to find a suitable candidate to fulfil the role of chairman. In light of the tremendous market challenges and the current uncertainties relating to the vacancy of the chairman role, the Board considered that experienced leadership was of utmost importance and has resolved to adopt an arrangement by appointing Mr. CHIH Yu Yang ("Mr. Chih"), the current chief executive officer, to act as the acting chairman with effect from 1 January 2017. Mr. Chih has been the Company's executive director and chief executive officer since 28

August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive and in-depth knowledge and experience in both the Company and the industry. The Board believes that this arrangement not only is crucial to the continuation in the Group's implementation of business plans and formulation of business strategies, but also serves to avoid unnecessary speculation, confusion and instability that may be caused to the Group's shareholders, investors, customers, suppliers and business partners worldwide, thereby allowing the Company to have sufficient time for the selection and appointment of the replacement chairman of the Company. During the current period, the Company had continued its search for the right candidate to fill the position of chairman of the Company and had considered the suitability and appropriateness of certain distinguished candidates. However, the Company was not able to identify the right candidate and it will continue its search efforts. Although the arrangement deviates from the relevant code provision, the Board considers that the arrangement will not impair the balance of power and authority between the Board and the management of the Company as three out of the six Board members are the independent non-executive directors and the Board meets regularly to consider major matters affecting the operations of the Group and all directors of the Company are properly and promptly briefed on such matters with adequate, complete and reliable information. Furthermore, the Board believes that the circumstances justify the bases for adopting the arrangement which is in the best interest of the Company and its shareholders as a whole. In the spirit of better corporate governance, the Board will periodically review the effectiveness of this arrangement (and introduce further measures, if necessary) and, through the Company's nomination committee, will continue to use its best endeavours to find a suitable candidate to assume the duties as chairman of the Company as soon as reasonably practicable thereby separating the roles of chairman and chief executive as prescribed under the code provision contained in Paragraph A.2.1 of the CG Code.

The Company has adopted the Manual since 15 April 2010, as amended and supplemented from time to time (please see below for the latest amendments to the Manual effected on 12 December 2018). The purpose of the Manual is to set out the corporate governance practices from time to time adopted by the Company and the compliance procedures that apply in specific areas, with the aim to providing an overview of the requirements of the CG Code and the related rules set out in the Listing Rules and setting out certain guidelines for the implementation of corporate governance measures of the Company.

As an enhancement of the Company's corporate governance practices, in particular, the Board (with the respective recommendations from the Company's corporate governance committee, audit committee, remuneration committee and/or nomination committee (as appropriate)) adopted on 29 June 2018 the revised delegation of authority of the Board (for details, please refer to the "Other Information — Corporate Governance" section of the Company's 2018 interim report), on 2 November 2018 the dividend policy, and on 12 December 2018 (among other things) the revised Manual together with the documents contemplated thereby, namely the revised list of matters reserved for the Board, the revised terms of reference of the audit committee, the revised terms of reference of the remuneration committee, the revised terms of reference of the nomination committee, the revised terms of reference of the corporate governance committee, the revised procedures for shareholders to propose candidates for election as a director of the Company, the revised shareholders communication policy, the revised memorandum on shareholder rights, the revised board diversity policy, the revised nomination policy for directorship and the revised procedures for the handling and dissemination of inside information and handling enquiries from authorities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the year ended 31 December 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

AUDIT COMMITTEE AND EXTERNAL AUDITOR

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

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018 and the annual report 2018 of the Company and recommended the same to the Board for approval.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

DISCLOSURE OF INFORMATION ON WEBSITES

The annual report 2018 of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and made available on the websites of the Stock Exchange and the Company respectively in due course.

DEFINITIONS

"Annual General Meeting"	the annual general meeting of the Company to be held at Kowloon Room I, Mezzanine Level, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Hong Kong on Friday, 17 May 2019 at 10:00 a.m. or, where the context so admits, any adjournment thereof
"Board"	the board of directors of the Company
"CG Code"	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Company", "we" or "our"	FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
"Group"	the Company and its subsidiaries
"Hon Hai"	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only), a limited liability company incorporated in Taiwan, the shares of which are listed on the Taiwan Stock Exchange Corporation and the ultimate controlling Shareholder
"Hon Hai Group"	Hon Hai, its subsidiaries and/or associates (as the case may be)
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"INR"	Indian rupee, the lawful currency of India
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Manual"	Corporate Governance Compliance Manual
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Share(s)”	ordinary share(s) with a nominal value of US$0.04 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US$” or “USD”	United States dollars, the lawful currency of the United States of America

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 6 March 2019

As at the date of this announcement, the Board comprises three executive directors, namely Mr. CHIH Yu Yang, Mr. WANG Chien Ho and Dr. KUO Wen-Yi; and three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih.