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 2019

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2019 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 2019

	Notes	**2019** *US$'000*	2018 *US$'000* (restated)
Continuing operations			
Revenue	*2*	**14,378,658**	14,868,132
Cost of sales		**(14,125,379)**	(15,013,909)
Gross profit (loss)		**253,279**	(145,777)
Other income, gains and losses	*3*	**139,465**	95,451
Impairment loss recognised for interests in associates		**–**	(84,820)
Fair value loss of convertible notes		**–**	(44,806)
Selling expenses		**(17,161)**	(24,166)
General and administrative expenses		**(192,316)**	(231,295)
Research and development expenses		**(157,627)**	(214,726)
Interest expenses		**(37,546)**	(27,610)
Share of profit of associates		**7,316**	3,085
Share of profit (loss) of joint ventures		**5**	(503)
Loss before tax	*4*	**(4,585)**	(675,167)
Income tax expense	*5*	**(27,932)**	(3,905)
Loss for the year from continuing operations		**(32,517)**	(679,072)
Discontinued operation			
Profit (loss) for the year from discontinued operation	*6*	**20,339**	(178,043)
Loss for the year		**(12,178)**	(857,115)

	Note	2019 US$'000	2018 US$'000 (restated)
Other comprehensive income (expenses):			
Items that will not be reclassified to profit or loss:			
Fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income		**3,651**	(32,417)
Remeasurement of defined benefit pension plans		**17**	304
		3,668	(32,113)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(38,814)**	(156,256)
Share of translation reserve of associates		**(348)**	2,439
Share of translation reserve of joint ventures		**(21)**	94
		(39,183)	(153,723)
Other comprehensive expense for the year, net of income tax		**(35,515)**	(185,836)
Total comprehensive expense for the year		**(47,693)**	(1,042,951)
(Loss) profit for the year attributable to owners of the Company			
— from continuing operations		**(32,632)**	(679,078)
— from discontinued operation		**20,339**	(178,043)
Loss for the year attributable to owners of the Company		**(12,293)**	(857,121)
Profit for the year attributable to non-controlling interests			
— from continuing operations		**115**	6
		(12,178)	(857,115)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(47,868)**	(1,042,280)
Non-controlling interests		**175**	(671)
		(47,693)	(1,042,951)
Loss per share	*8*		
From continuing and discontinued operations			
Basic		**(US0.15 cent)**	(US10.57 cents)
From continuing operations			
Basic		**(US0.40 cent)**	(US8.37 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	Notes	2019 US$'000	2018 US$'000
Non-current assets			
Property, plant and equipment		**991,237**	1,002,393
Right-of-use assets		**72,700**	–
Investment properties		**3,965**	4,747
Prepaid lease payments		**–**	47,809
Financial assets at fair value through profit or loss	*9*		
— Equity instruments		**3,739**	13,082
— Convertible notes		**666**	–
Financial assets at fair value through other comprehensive income	*10*		
— Equity instruments		**124,128**	119,232
Interests in associates		**27,940**	20,972
Interests in joint ventures		**–**	2,390
Deferred tax assets	*11*	**19,567**	20,300
Deposit for acquisition of right-of-use assets/prepaid lease payments		**27,327**	27,785
		1,271,269	1,258,710
Current assets			
Inventories		**795,821**	1,400,388
Trade and other receivables	*12*	**3,299,023**	4,305,578
Financial assets at fair value through profit or loss			
— Short-term investments	*9*	**71,939**	454,421
Bank deposits		**19,200**	66,697
Bank balances and cash		**1,545,269**	1,418,569
		5,731,252	7,645,653
Current liabilities			
Trade and other payables	*13*	**4,007,915**	5,091,425
Contract liabilities		**140,249**	20,063
Lease liabilities		**20,150**	–
Bank borrowings	*14*	**605,728**	1,427,217
Provision	*15*	**13,185**	102,719
Tax payable		**76,860**	81,373
		4,864,087	6,722,797
Net current assets		**867,165**	922,856
Total assets less current liabilities		**2,138,434**	2,181,566

	Notes	**2019**	2018
		US$'000	*US$'000*
Capital and reserves			
Share capital		**328,456**	328,563
Reserves		**1,766,030**	1,815,779
Equity attributable to owners of the Company		**2,094,486**	2,144,342
Non-controlling interests		**6,114**	5,939
Total equity		**2,100,600**	2,150,281
Non-current liabilities			
Deferred tax liabilities	*11*	**13,106**	10,441
Deferred income	*16*	**18,891**	20,844
Lease liabilities		**5,837**	–
		37,834	31,285
		2,138,434	2,181,566

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

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

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

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 these consolidated financial statements.

IFRS 16 "Leases" ("IFRS 16")

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 "Leases" ("IAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery and equipment in the People's Republic of China (the "PRC") was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.73%.

	At 1 January 2019 *US$'000*
Operating lease commitments disclosed as at 31 December 2018	23,752
Lease liabilities discounted at relevant incremental borrowing rates	23,442
Add: Lease liabilities resulting from lease modifications of existing leases *(Note)*	11,323
Less: Recognition exemption — short-term leases	(22,836)
Lease liabilities relating to operating leases recognised upon application of IFRS 16	11,929
Analysed as	
Current	1,225
Non-current	10,704
	11,929

Note: The Group renewed the leases of several existing properties by entering into new lease contracts which commence after date of initial application, these new contracts are accounted as lease modifications of the existing contracts upon application of IFRS 16.

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets *US$'000*
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	11,929
Reclassified from prepaid lease payments *(Note)*	47,809
	59,738
By class:	
Leasehold land	47,809
Land and buildings	8,179
Plant and machinery	3,184
Fixtures and equipment	566
	59,738

Note:

(a) Upfront payments for leasehold lands in the PRC, Vietnam and India were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the prepaid lease payments amounting to US$47,809,000 were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

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 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
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	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1 January 2021.
[2] 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.
[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 annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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 and processing service) amounting to US$14,378,658,000 (2018: US$14,868,132,000) to its customers in connection with the production of handsets. From 1 January 2019, the Group discontinued its distribution business. The segment information reported below does not include any amounts for this discontinued operation, which are described more in note 6.

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.

As at 1 January 2018, contract liabilities amounted to US$84,517,000. All the contract liabilities at the beginning of the reporting period were included in the revenue recognised in the reporting period.

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

Continuing operations

	2019 ***US$'000***	2018 *US$'000* (restated)
Segment revenue (external sales)		
Asia	**12,023,341**	11,724,824
Europe	**1,106,314**	2,005,463
America	**1,249,003**	1,137,845
Total	**14,378,658**	14,868,132
Segment profit (loss)		
Asia	**230,286**	256,735
Europe	**10,985**	(375,933)
America	**58,738**	48,207
	300,009	(70,991)
Other income, gains and losses	**75,574**	(3,501)
Impairment loss recognised for interests in associates	**–**	(84,820)
Fair value loss of convertible notes	**–**	(44,806)
General and administrative expenses	**(192,316)**	(231,295)
Research and development expenses	**(157,627)**	(214,726)
Interest expense	**(37,546)**	(27,610)
Share of profit of associates	**7,316**	3,085
Share of profit (loss) of joint ventures	**5**	(503)
Loss before tax from continuing operations	**(4,585)**	(675,167)

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:

	2019	2018
	US$'000	*US$'000*
		(restated)
ASSETS		
Segment assets		
Continuing operations		
Allocated		
Asia	**2,424,530**	2,636,958
Europe	**176,127**	541,232
America	**480,165**	584,954
Total	**3,080,822**	3,763,144
Unallocated		
Property, plant and equipment	**974,213**	982,433
Inventories	**786,374**	1,391,886
Cash and bank deposits	**1,347,301**	998,300
Others	**518,140**	1,163,866
Corporate assets	**179,788**	183,038
Assets relating to discontinued operation	**115,883**	421,696
Consolidated total assets	**7,002,521**	8,904,363
LIABILITIES		
Segment liabilities		
Continuing operations		
Allocated		
Europe	**625**	682
America	**30,387**	36,968
Total	**31,012**	37,650
Unallocated		
Trade and other payables	**3,977,571**	4,671,180
Others	**198,176**	53,944
Corporate liabilities	**695,108**	1,520,183
Liabilities relating to discontinued operation	**54**	471,125
Consolidated total liabilities	**4,901,921**	6,754,082

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 Europe and America operations.

3. OTHER INCOME, GAINS AND LOSSES

	2019	2018
	US$'000	*US$'000*
		(restated)
An analysis of the Group's other income, gains and losses is as follows:		
Continuing operations		
Interest income from bank deposits and bank balances	**34,502**	28,384
Service income	**63,891**	98,952
Sales of materials and scraps	**7,597**	26,357
Repairs and modifications of mouldings	**23,795**	25,981
Net foreign exchange loss	**(56,751)**	(101,999)
Government subsidies *(note)*	**59,938**	66,622
Rental income	**9,688**	19,985
Loss on disposal and write-off of property, plant and equipment	**(6,323)**	(20,756)
Gain on disposal of land use right classified as right-of-use assets	**1,207**	–
Impairment loss recognised for property, plant and equipment	**(3,105)**	(6,107)
Impairment loss recognised for interest in a joint venture	**(2,374)**	–
Net fair value gain (loss) on financial assets at FVTPL		
— short-term investments	**9,099**	19,309
— equity instruments	**2,567**	(70,687)
Others	**(4,266)**	9,410
	139,465	95,451

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

4. LOSS BEFORE TAX

	2019	2018
	US$'000	*US$'000*
		(Restated)
Loss before tax for the year from continuing operations has been arrived at after charging:		
Amortisation of prepaid lease payments (included in general and administrative expenses)	**–**	1,794
Depreciation of property, plant and equipment	**186,944**	156,558
Depreciation of right-of-use assets	**7,339**	–
Depreciation of investment properties	**947**	919
Total depreciation and amortisation	**195,230**	159,271
Less: Amount capitalised in inventories	**(152,954)**	(138,609)
Amount included in research and development expenses	**(7,701)**	(5,158)
	34,575	15,504
Staff costs		
Directors' emoluments	**1,130**	2,125
Retirement benefit scheme contributions (excluding directors)	**23,237**	58,694
Other staff costs	**506,246**	446,426
Equity-settled share-based payments	**–**	15,632
Total staff costs	**530,613**	522,877
Less: Amount capitalised in inventories	**(341,701)**	(272,509)
Amount included in research and development expenses	**(80,905)**	(120,963)
	108,007	129,405
Auditor's remuneration	**1,203**	1,204
Cost of inventories recognised as expense	**14,009,388**	14,869,335
Impairment loss (reversed) recognised in respect of trade receivables, net	**(170)**	932
Provision for warranty	**12,001**	11,860
Write down of inventories to net realisable value	**103,990**	132,714

5. INCOME TAX EXPENSE

	2019	2018
	US$'000	*US$'000*
		(restated)
Continuing operations		
Current tax		
— Hong Kong	**–**	–
— Other jurisdictions	**26,169**	6,156
	26,169	6,156
Overprovision in prior years		
— Hong Kong	**–**	–
— Other jurisdictions	**(2,126)**	(17,634)
	(2,126)	(17,634)
	24,043	(11,478)
Deferred tax *(note 11)*		
— Current year	**3,889**	15,770
— Change in tax rate	**–**	(387)
	3,889	15,383
	27,932	3,905

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% (2018: 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% (2018: 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. DISCONTINUED OPERATION

From 1 January 2019, the Group discontinued its distribution business. The profit (loss) for the year from the discontinued operation is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the distribution business as discontinued operation.

	2019	2018
	US$'000	*US$'000*
Revenue	**–**	61,771
Other income, gains and losses	**26,423**	(3,934)
Impairment loss recognised for goodwill	**–**	(79,435)
Selling expenses	**–**	(99,180)
General and administrative expenses	**(4,799)**	(44,061)
Interest expenses	**(732)**	(95)
Profit (loss) before tax	**20,892**	(164,934)
Income tax expense	**(553)**	(13,109)
Profit (loss) for the year	**20,339**	(178,043)

(Profit) loss for the year from discontinued operation has been arrived at after charging:

Interest income from bank deposits and bank balances	**(780)**	(6,651)
Staff costs	**4,522**	17,910
Auditor's remuneration	**181**	174
Depreciation of property, plant and equipment	**139**	10,702
Loss on disposal of property, plant and equipment	**40**	585
Impairment loss (reversed) recognised in respect of trade receivables, net	**(17)**	17
Amortisation of intangible assets	**–**	9,500
Provision for warranty	**–**	58,017
Net cash flow used in operating activities	**(5,727)**	(186,172)
Net cash flow from investing activities	**317**	1,009
Net cash flow used in financing activities	**(732)**	(95)
Net cash flow	**(6,142)**	(185,258)

As at 31 December 2019, assets and liabilities relating to discontinued operation amounted to US$115,883,000, which mainly consist of other receivables of US$81,703,000 and bank balances of US$34,180,000, and US$54,000 respectively.

7. DIVIDENDS

No dividend was declared or proposed for the years ended 31 December 2019 and 31 December 2018, nor has any dividend been proposed since the end of the reporting period.

8. LOSS PER SHARE

For continuing operations

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

	2019	2018
	US$'000	*US$'000*
Loss attributable to the owners of the Company	**(12,293)**	(857,121)
Less: Profit (loss) for the year from discontinued operation	**20,339**	(178,043)
Loss for the purposes of basic loss per share from continuing operations	**(32,632)**	(679,078)

	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**8,212,499,287**	8,109,008,913

From continuing and discontinued operations

The calculation of the basic loss per share from continuing and discontinued operations attributable to the owners of the Company is based on the following data:

	2019	2018
	US$'000	*US$'000*
Loss attributable to the owners of the Company		
Loss for the purposes of basic loss per share	**(12,293)**	(857,121)

The denominators used are the same as those detailed above for basic earnings per share.

From discontinued operation

Basic profit per share for the discontinued operation is US0.25 cent (2018: loss of US2.20 cents per share), based on the profit for the year from the discontinued operation of US$20,339,000 (2018: loss of US$178,043,000) and the denominators detailed above for basic profit (loss) per share.

The computation of diluted loss per share for the years ended 31 December 2019 and 31 December 2018 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.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2019	2018
	US$'000	*US$'000*
Listed securities:		
— Equity securities listed in Hong Kong	**3,739**	3,075
— Equity securities listed in Taiwan	**–**	10,007
	3,739	13,082
Convertible notes	**666**	–
Short-term investments *(note)*	**71,939**	454,421
Analysed for reporting purposes as:		
Current assets	**71,939**	454,421
Non-current assets	**4,405**	13,082
	76,344	467,503

Note: The amounts represented investments with guaranteed interests acquired from banks in the PRC.

10. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	US$'000	*US$'000*
Equity securities listed in Taiwan *(note a)*	**4,619**	4,207
Equity securities listed in USA *(note a)*	**877**	–
Unlisted equity securities *(note b)*	**118,632**	115,025
	124,128	119,232

Notes:

(a) The above listed equity investments represent ordinary shares of entities listed in Taiwan and USA. 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 2019, included in unlisted equity securities above, there is the Group's investment in HMD global Oy ("HMD"), a company incorporated in Finland, which is engaged in the development, manufacture and sale of telecommunication devices, software and related services of approximately US$79,986,000 (2018: US$79,986,000). During the year ended 31 December 2018, the Group further acquired certain interests in HMD at a cash consideration of US$62,000,000.

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. 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 *US$'000*	Warranty provision *US$'000*	Accelerated tax depreciation *US$'000*	Tax losses *US$'000*	Deferred income *US$'000*	Others *US$'000* *(Note)*	Total *US$'000*
At 1 January 2018	(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)
Charge (credit) to profit or loss for the year	2,432	(127)	(1,067)	(2,932)	–	5,583	3,889
Exchange adjustments	(47)	(1)	(11)	(304)	–	(128)	(491)
At 31 December 2019	(3,357)	(599)	9,336	(7,426)	–	(4,415)	(6,461)

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:

	2019 ***US$'000***	2018 *US$'000*
Deferred tax assets	**(19,567)**	(20,300)
Deferred tax liabilities	**13,106**	10,441
	(6,461)	(9,859)

Deferred tax assets were recognised for other deductible temporary differences of approximately US$28,972,000 (2018: US$70,154,000) on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses.

At 31 December 2019, 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$191,690,000 (2018: US$259,033,000) 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$1,724,838,000 (2018: US$1,604,045,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$24,754,000 (2018: US$14,004,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$1,700,084,000 (2018: US$1,590,041,000) 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$1,175,857,000 (2018: US$1,213,508,000) 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.

12. TRADE AND OTHER RECEIVABLES

	2019	2018
	US$'000	*US$'000*
Trade receivables	**2,860,399**	3,640,165
Less: Allowance for credit losses	**(1,593)**	(1,795)
	2,858,806	3,638,370
Other taxes recoverables	**288,715**	549,483
Other receivables, deposits and prepayments	**151,502**	117,725
Total trade and other receivables	**3,299,023**	4,305,578

As at 1 January 2018, trade receivables from contracts with customers amounted to US$3,461,169,000.

The Group generally would issue the invoices to the customers when the goods are passed to the customers, except for certain orders that the Group may also collect advance payments from customers. 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:

	2019	2018
	US$'000	*US$'000*
0–90 days	**2,844,143**	3,598,003
91–180 days	**4,605**	30,350
181–360 days	**2,905**	2,331
Over 360 days	**7,153**	7,686
	2,858,806	3,638,370

The Group seeks to maintain strict control over the creditability of customers and their respective outstanding receivables. Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customers. The creditability of customers is reviewed regularly. The Group does not hold any collateral or other credit enhancements over these balances.

13. TRADE AND OTHER PAYABLES

	2019	2018
	US$'000	*US$'000*
Trade payables	**3,200,810**	3,920,741
Accruals and other payables	**807,105**	1,170,684
	4,007,915	5,091,425

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

	2019	2018
	US$'000	*US$'000*
0–90 days	**3,018,163**	3,678,586
91–180 days	**158,189**	182,819
181–360 days	**10,553**	39,059
Over 360 days	**13,905**	20,277
	3,200,810	3,920,741

14. BANK BORROWINGS

	2019	2018
	US$'000	*US$'000*
Bank loans	**605,728**	1,427,217

Analysis of bank borrowings by currency:

US$	**605,000**	1,427,217
Indian Rupee ("INR")	**728**	–

The bank borrowings as at 31 December 2019 are unsecured, obtained with original maturity of one to six months (2018: two to twelve months) and carry interest at fixed interest rate ranging from 2.14% to 7.85% (2018: 2.76% to 4.40%) per annum. Out of total bank borrowing, bank borrowing of US$255,000,000 (2018: US$198,000,000) contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 2.30% per annum (2018: 1.73% per annum).

15. PROVISION

	2019	2018
	US$'000	*US$'000*
At 1 January	**102,719**	96,896
Exchange adjustments	**(111)**	(554)
Provision for the year	**12,001**	69,877
Utilisation of provision/expiry	**(59,465)**	(63,500)
Settlement through non-cash transaction	**(41,959)**	–
At 31 December	**13,185**	102,719

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.

16. DEFERRED INCOME

	2019	2018
	US$'000	*US$'000*
Government subsidies	**18,891**	20,844

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

17. 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.

Financial assets/liabilities subject to offsetting	**As at 31 December 2019**		
	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	**1,051,156**	**(1,051,156)**	**–**
Bank borrowings	**(1,051,156)**	**1,051,156**	**–**
Interest receivables	**21,506**	**(19,353)**	**2,153**
Interest payables	**(19,353)**	**19,353**	**–**

Financial assets/liabilities subject to offsetting	As at 31 December 2018		
	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)	–

During the year, interest income of US$41,449,000 (2018: US$32,521,000) was included in interest income under the above arrangement.

IMPORTANT

The Group's consolidated final results for the current period as 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.

The outbreak of novel coronavirus (COVID-19) in Mainland China and the subsequent quarantine measures imposed by the Mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had some negative impacts on the operations of the Group, as a lot of the Group's operations are located in Shenzhen, Langfang and Guiyang in Mainland China. The Group had to postpone its manufacturing since the end of the Chinese New Year Holiday in late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group had re-opened all of its factories in Mainland China stage by stage since 10 February 2020, but they are still not operating at normal capacity due to self-quarantine procedure, logistics, and travel restrictions. In light of the reduction in scale of the Group's manufacturing activities after the reporting period, the Group has had to re-arrange the shipment without violating any customer contract terms. In addition, as the operations of some of the Group's customers, suppliers, associates, joint ventures and investees are located in Mainland China, the outbreak of COVID-19 is expected to have a negative impact on these parties. Because of the quickly-evolving nature of COVID-19's spread and evolution, the Company considers it is too early and difficult to predict with any precision what impact that outbreak might have on the Group's performance for the six months ending 30 June 2020. The challenging conditions that the Group has faced since late 2017 have continued into 2020. The Group's gross margins generally have also continued to come under pressure from competition. However, the Company has been working hard and doing everything that it reasonably can to maximise its performance through these challenging times. The Company will keep matters under close review as the first quarter of 2020 progresses, and will make further announcements, as necessary, to keep shareholders and potential investors informed.

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 may not be limited to, changes in general industry and ecosystem and macro-economic environment (such as intensifying trade wars and political conditions), development of the outbreak of COVID-19, changes in money markets (such as interest rate hikes and volatility in foreign exchange rates), changes in capital markets, competition, shifts in customers' demand and preferences and propensity to spend, seasonality of sales, changes in sales and product mix, changes in commodity price, inflationary rate, shortage of components, technology advancement, and changes in market/legal/regulatory/government/fiscal and monetary policy/tax policy/tariffs (e.g. changes of custom duty rates, government's blacklisting, export controls and bans against the Group's major customer). In addition, new unpredictable 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, the shareholders and potential investors are advised to exercise caution when dealing in the Shares.

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 services provider with business models 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 (including casings sold to customers and casings used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly etc., and supply chain services and solutions, 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 like smart speakers.

The Group strives to provide its customers with not only product development and manufacturing support and solutions, but also a full range of cost-competitive services including repair services 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 lead time required to bring the products to the highly dynamic and competitive market and fosters long-term business relationships with customers.

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 manufacturing facilities and operations, Research and Development ("R&D") centres and phone repair and refurbishment facilities located close to its customers across the Asia-Pacific region (e.g. China, India, Vietnam, Taiwan) and the America including Mexico to better facilitate their respective local needs and enable such customers to accelerate the launch of their products to market.

As the trade tension between U.S. and China escalated in 2019, one of the Group's key customers in China was coerced to terminate the relationship with one of its EMS partners as a consequence of the escalating U.S.-China trade war development, and the Group took immediate and necessary actions to support the customer and maintain good business relationship with this customer. In addition, with the Group's strong support in oversea market, another key customer's successful growth in its shipment in oversea market including India, Europe and other countries offset the adverse impacts on such key customer arising from its competitor's refocus on the Chinese market. As the U.S.-China trade tensions heat up, some customers flocked to Vietnam, where the Group already has a large plant in Hanoi which allows the Group to serve the customers in the best manner and foster long-term business relationships.

In relation to the Group's continuous fostering and development of long-term relationships and partnerships with a diversity of customers during the current period, the Group entered into collaboration with a U.S.-based Internet customer in 2018 who is one of the most innovative Internet companies in the world to bring the most advanced AI (Artificial Intelligence) 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.

The Group's another customer, HMD global Oy ("HMD"), is headquartered in Espoo, Finland and is the home of Nokia phones. As manufacturer of Nokia-branded smart phones and feature phones, it is targeting worldwide mobile phone market with full price range. Sales to HMD are grouped under 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 responsible for IP (Intellectual Property) right management, product development, sales and marketing for the mobile devices and related services. For details, please see "Investments" section below.

As a whole, the Group's strategy and business model are 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 and assembly and services of phone and provide a complete range of cost-competitive and vertically-integrated global supply chain solutions for its customers. This enables its customers to leverage on its supply chain solutions to meet their product requirements throughout the life cycle of their products. The Group secures front-end trends by working closely with supply chain and suppliers and creating win-win for both the Group and customers by developing practical solutions. After building long-term partnership with customers, the Group is able to communicate effectively with the customers and accelerate manufacturing whilst meeting specifications and quality requirements from customers. At the same time, the Group has been consistently putting effort on improving operation management and process and efficiency optimisation, research and development, streamlining production process to improve learning curves and yield, human resource management to deliver all projects in a timely manner. 2019 has been a challenging period for the handset industry generally due to various factors impacting the competitive landscape and factors leading to margin erosion pressure, while certain market has been shrinking in many geographies. There has been more than usual pressure on pricing coming from the largest players in the industry fighting against the recent trend in market share development and all of the Group's customers have been facing challenges of various kinds. The core business of one key customer is not in mobile phone sector and any change to the business strategy of this customer may affect the Group's sales to this customer. The Group will continue to explore opportunities in new projects, new products and new customer development on the solid foundation of existing products, customers. Confronting more diversified product lines and customer demands, the Group will deliberately enhance the core competence by means of optimising production process, magnifying efficiency, escalating automation, executing solid cost-control measure and cultivating talents.

Amongst the Group's five largest customers (including HMD) during the current period which accounted for approximately 90.02% 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, and the other two have been its customers for more than a year as well. These top five largest customers are the same as those for 2018. These major customers are not required to commit to certain minimum purchase value or volume from the Group over a period of time. In the current dynamic and competitive handset industry, innovation and enhanced user experience and product pricing and quality are paramount and loss of or changes in market position of any of these customers or their products may materially and adversely affect the Group's business, financial condition and results of operation, especially in view of the concentration of its sales to these customers. The Group's reliance on major customers means that the Group's performance is directly affected by the performance of these customers in a challenging handset industry and the Group pays attention to the change of market trend and lower any business risk associated with the excessive concentration of customers.

Given that the industry is dominated by consolidated significant players, and in cases where the Group developed new smaller customers, it would be difficult for the Group to develop new customers that have similar business scale as the Group's existing major customers and would to a certain extent affect the Group's bargaining power. Further, it takes time for the Group to gear up its production facilities to produce products and provide services that are customised for new customers. In cases where the Group switches to or adds new customers, it typically takes the Group approximately 2 to 10 months to customise the Group's production facilities depending on the complexity and sophistication of products and associated business models. The replacement/upgrade cycle of smart phone is prolonging in mature market such as America and Western Europe which is due to limited product and development innovation, smaller and narrowing gap between high-end and low-end models, the expectation of 5G era, etc. In emerging markets, while the penetration rate of smart phone is peaking up, the demand from replacing feature phones with smart phone decelerates. In light of the handset market saturation, the Group has intensified its focus on technology innovation and manufacturing efficiency to ensure user experience and cost competitiveness of products and values the mutually beneficial relationships with its customers, regardless of the size and scale of the customer, by providing high quality products and services of global standards at competitive prices in an efficient manner, manufacturing industry-leading and state-of-the-art products for its customers in different countries like China, Vietnam and India, offering customised services and flexibility to customers, and creating customer delight among passionate people engaged in a world-class manufacturing environment, and continues to prolong, develop, penetrate 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. However, as one of the core business of one major customer is not in the handset business, any change to its business strategy on the phone business may impact the Group's business, which will consequently drive the Group to devote resources to this customer to provide best-in-class services. Similar to many industries in today's globalised world, the handset market experiences continuous consolidation where smaller-by-smaller 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 growth and concentration risk in a balanced manner, in the dynamic and competitive market.

One of such five largest customers during the period from 1 January to 31 July 2019 was Sharp Corporation, which is a connected person of the Company pursuant to the Listing Rules as it is an associate of Hon Hai, the ultimate controlling Shareholder. The revenue derived from the sales of goods and rendering of services by the Group to Sharp Corporation accounted for approximately 6.33% of the Group's total revenue from the sales of goods and rendering of services for the current period.

The credit period granted to the Group's major customers (whether or not it is a connected person of the Company) ranges from 30 to 90 days, which is in line with those granted to other customers. The reversal of allowance for credit loss made for the current period was US$0.17 million (when compared to the allowance for credit loss of US$0.93 million made for the same period in 2018), while allowance were 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 have satisfactorily resulted in no credit-impaired receivables noted for the current period.

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, the Group's procurement team deals with over 3,000 suppliers that supply components and other materials necessary for the Group's businesses, with the majority of them being reputable and qualified approved suppliers with long-term and stable relationships with the Group. 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 materials and components, price competitiveness, technical and technological competence, innovation and engineering capability, on-time delivery, service quality, commercial terms for supply transactions and specifications from its customers and scale and industry reputation and financial strength. Purchases from the Group's five largest suppliers accounted for approximately 71.25% 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, while the remaining one has been the Group's supplier for more than a year. The Group's contracts with these major suppliers neither require them to reserve their production capacity nor produce supplies or guarantee minimum supplies to the Group, which could leave the Group exposed to the risk of fluctuating supplies. Notwithstanding the apparent concentration of procurements from these major suppliers basically to secure better pricing, the Group is not exposed to any material risk of disrupted supplies from the Group's suppliers as the Group's procurement needs are well planned with sufficient buffer to address any possible material delay or shortage. Additionally, there are a vast number of alternative suppliers in the market for the Group to choose from. The Group forecasts that it will not be subject to significantly increased material costs or delay in cases where the Group were to switch suppliers in instances where such needs arise.

Notwithstanding that there are a great number of suppliers in the market that the Group could potentially choose from, the Group over the years has concentrated its procurement from major suppliers due to the ease of procurement process and stability of supplies and the commercially sound terms (especially pricing) offered by these suppliers. One of such five largest suppliers is the Hon Hai Group. Hon Hai is the ultimate controlling Shareholder and hence a connected person of the Company pursuant to the Listing Rules. The purchases attributable to the Hon Hai Group accounted for approximately 8.35% 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 2018 environmental, social and governance report as issued and published on 9 April 2019, bearing in mind that the Company's separate 2019 environmental, social and governance report is tentatively scheduled to be issued and published in April 2020.

In response to the potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has its diversified customers and suppliers base, and has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. In order to deal with future inflation risk and minimise the impact on operations, the Group pays close attention to market price trends and maintains good interaction with customers and suppliers with flexible procurement and sales strategies. For details, please refer to the "Accountability and Audit" section of the Company's 2018 corporate governance report, which forms part of the Company's 2018 annual report as issued and published on 9 April 2019, bearing in mind that the Company's 2019 annual report (incorporating its 2019 corporate governance report) is tentatively scheduled to be issued and published in April 2020.

Employees are valuable assets to the Group. Therefore, the long-term strategy of the Group is to cultivate employees internally and to recruit outside professionals. Product development and manufacture are both complicated process and require professional and experts. Therefore, the Group pays attention to keep enhancing quality and quantity of staff force in order to secure its leadership and competency. The Group has been working diligently in different countries to attract and retain talent. As to talent development, the Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified and brilliant 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 and enrichment and diversification, coupled with better career prospect across various products and programs and business lines. The Group places great emphasis on career planning and talent development for employees in different countries by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency and technical development to enhance employees' capabilities, while external training programs include hands-on courses and workshops and seminars or conferences organised by external parties that provide excellent training and professional development opportunities for employees that bring theory and practice together to improve the competency of the Group. 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 arranged and 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, training and development, knowledge building, motivations, rewards and retention, as well as localisation. The Group complies with relevant labour laws and regulations to protect employees' rights and interests. In order to communicate effectively with staff, the Group provides channels like meetings, email, or mail box for employees to reflect their thoughts. Currently, the communication between the Group and employees is well conducted.

The Group has built up a global experienced R&D team with offices in Mainland China, Taiwan, India and Vietnam 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 the Group's customers. The Group strives to reinvent productivity to empower people and organisations to achieve an increased agility, streamline engineering processes, move faster and more efficiently, simplify its organisation, and remain lean and optimise its cost structure. 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, and sales and marketing competence. All employees took on every challenge unreservedly and confronted every frustration fearlessly.

As at 31 December 2019, the Group had a total of 85,729 (31 December 2018: 97,484) employees. Total staff costs incurred during the current period amounted to US$531 million (full-year 2018: US$523 million), and the year-on-year increase was mainly due to introduction of a new customer in 2018 and continuous growth of business with such new customer, as well as rightsizing of staff force according to business needs.

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 and 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 2018 environmental, social and governance report as issued and published on 9 April 2019, bearing in mind that the Company's separate 2019 environmental, social and governance report is tentatively scheduled to be issued and published in April 2020.

Review of Results and Operations

Financial Performance

The financial KPIs (Key Performance Indicators) 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 (like outsourcing or insourcing) and life cycle, client mix, revenue and product mix (casing versus system assembly and other non-handset businesses), business segments, pricing strategy and policy, geographical footprint, competitive edges, cost structure, it may be difficult to make direct comparisons at consolidated group account level as some peers may have business segments other than mobile phone business.

From 1 January 2019, due to change of collaboration model between the Group and HMD, the Group discontinued its logistics and distribution business. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to represent the discontinued operation. The comparative figures of this section have been restated accordingly.

For the continuing operations in 2019, the Group recognised a consolidated revenue of US$14,379 million, representing a decrease of US$489 million or 3.3% when compared to US$14,868 million for the same period last year. Net loss from the continuing operations for the current period was US$33 million, when compared to a net loss of US$679 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 that the Group has faced since late 2017 (like unfavourable product mix, increasing pricing pressure and price hikes in components) having continued through 2018 into 2019; (2) continued pressure on the Group's gross margins generally; and (3) the Group's continued foreign exchange-related net loss in 2019 (2019 exchange-related net loss was US$57 million and was materially smaller than the Group's foreign exchange-related net loss of US$102 million for 2018).

For the discontinued operation in 2019, the Group ceased its logistics and distribution business from 1 January 2019. The profit for the current period from the discontinued operation was US$20.3 million, when compared to a net loss of US$178 million for the same period last year. Such cessation has worsen the Group's 2019 gross profit as the Group lost distribution income (grouped under sales income) that would otherwise be generated from that business (sales income from that business for the year ended 31 December 2018 totalled around US$61.77 million), on the flip side, no selling expenses were incurred during the current period to generate distribution income when compared with selling expenses of US$99 million for 2018.

Gross profit and gross margins of a manufacturing business are common financial KPIs measuring how effectively the company turns its revenue into profit and reflects how much of its sales a company retains after paying the up-front costs of producing the goods or services it sells and are essential to understanding the overall financial health of a company. A higher percentage of gross profit means a stronger ability to control cost of sales, which include 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. Within a given company, gross margin changes over time can provide useful insight into internal improvements in productivity.

As explained in further detail below, the Group's gross profit from the continuing operations for the current period of US$253 million, represented an increase of US$399 million profit from that for the same period last year, mainly as a result of adjustments to the collaboration model effected at the end of 2018 between the Group and HMD on Nokia branded smart phone business and shipment of Nokia-branded smart phones reduced greatly in 2019. Gross margins from the continuing operations for the current period represented a profit of 1.76% and was an improvement on the loss of 0.98% for the same period last year.

Following the acquisition of assets from Microsoft Mobile Oy ("Microsoft") in December 2016, and in 2018, subsequent to operating for two years, 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 the 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 at more competitive prices. For the Nokia-branded phone business, the Group had to do the commodity and program sourcing work itself. To relieve its pricing and gross margin erosion pressure, BOM cost 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. The cost increases in key components impacted profit margins due arise in BOM cost, which could not be automatically transferred to customers without creating a negative impact on demand. These unfavourable factors, BOM costs pressure, manufacturing costs and quality assurance costs of smart phones had affected the costs of smart phones manufactured by the Group sold to HMD and gross margins pressure were impacted significantly, which accounted for the high gross loss.

Up to the end of 2018, despite all the actions and efforts that have been taken by the Group's Nokia-branded smart phone manufacturing business in the past two years, the overall performance was poor. Due to competition remaining fierce and given the difficulties forecasted in 2019, the Group critically reviewed its business strategy in 2018 year end and determined not to accept orders with poor margin in 2019 and ahead and at the same time, the Group's collaboration partner, HMD (which has been in the dynamic and competitive handset market) came to a strategic decision at 2018 year end to deploy a multi-ODM partnership strategy and not only seek for the Group's support but also contracts other ODMs. 2019 has been a challenging period for the whole handset industry (including HMD) due to many factors impacting competitive landscape while market has been shrinking in many geographies. There has been an increased pressure on pricing coming from the largest players in the industry fighting against recent trend in market share development. This situation was exacerbated by the U.S. deciding to continue its efforts in limiting the use of U.S. technology in foreign origin products for national security reasons. This led to an immediate impact on the whole industry halting supply in some markets and generating high price erosion and sales pressure on others. This was clashing with HMD plan of cleaning the past business model generated liabilities generated during 2018 coming from old second and third generation/wave smart phone products in a steady manner and the Group has continued to manufacture HMD's loss making second and third generation/wave old smart phone products until the end of the product lifecycle and only accept the design and manufacture of Nokia branded feature phone programs and new smart phone programs of satisfactory margin and such change in the collaboration model has gradually decrease the sales to HMD in 2019 and the sale drop to HMD can be partially offset by sale to the new U.S. internet customer. As 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 was lowered in the second half of 2019 and the Group's gross margin (excluding the impact to gross margin triggered by the discontinuance of phone distribution business) has improved gradually. Now the Group can refocus on Nokia-branded smart phone projects with optimised profit margins, which will ease the margin erosion pressure and is reflected in the year-on-year improvement of Europe segment (please refer to note 2 of "Revenue and Segment Information").

As a whole, there is a continuous need to drive for better internal operational efficiency of manufacturing processes, testing processes, inventory and supply chain management, quality management, capital expenditure control, 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. In conclusion, good vendor management, supply chain management, manufacturing management, business control management, quality management, order fulfillment and inventory management are critical to ensure cost efficient operations.

Peers

Apart from the Nokia-branded phone manufacturing business, the Group's casing and system assembly business also continued to face many tremendous challenges. In the third quarter of 2019, many mechanical vendors had chosen to diversify their product mix beyond mobile phones to improve their gross margin rate in the declined mobile phone market, which led to an easing on the price competition in this industry. While in the past two years, there had been a change in the Group's 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 weight of system assembly business of comparatively low gross margins kept increasing in 2019 but is expected to decrease in 2020. 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 the Group's customers. They also have customers, which are not customers of the Group. They have strong cost competitiveness and they are innovative (like having 2.5D/3D glass casing capabilities or "Glastic" back cover, a glass-like casing technology), 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 2019 quarterly results) of the 5 major competitors/peers had been conducted in-house and the study showed that most Chinese vendors' performance would deteriorate when compared to last year but was in general improved in the third quarter of 2019. These peers' core businesses are diversified. Apart from casing business, they also engage in other businesses such as the research and development of antenna for 5G station and smart phone. For these 5 peers, their core and other businesses and 2019 quarterly performance are listed as follows:

i. Peer 1 is a Hong Kong listed company whose core businesses are acoustics and haptics optical applications. Its gross margin rate and net profit rate hit a historical low in the second quarter of 2019 due to decreased order from its biggest customer, but bounced back in the third quarter of 2019 due to improved revenue and margin rate of acoustic products. According to what its management team stated during its conference call for the first half of 2019, due to US-China trade war, the company has restarted its factories in Vietnam and Philippine in second half of 2019 to reduce the impact. Regarding its 2019 full year performance, according to an estimation from a research institution, although its total revenue is expected to slightly decrease 2% year-on-year, its net margin rate would largely decrease from 21% in 2018 to 12% in 2019. For mechanical, shipments increased 68% year-on-year in the third quarter of 2019 due to a higher penetration in high-end Android phones, but gross margin slightly decreased due to higher materials cost. For 5G non-casing business, the company expects to ship antenna products for 5G station and smart phone in 2020, and also invested in the research and development of PCB for 5G station;

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 OEM/ODM service provider for handset EMS and a provider for a wide range of metal, glass, and ceramic designs. Its net profit decreased almost 50% year-on-year in the first half of 2019 due to decreased shipment of its biggest customer, which however slightly recovered in the third quarter of 2019 due to the growth of 5G phone shipment and improved mechanical market. According to an estimation from a research institution, its total revenue in 2019 is expected to increase 37% year-on-year, but its net margin would decrease 28% year-on-year in 2019 due to increased operating expense;

iii. Peer 3 is a PRC listed company whose shares are listed in the Shenzhen Stock Exchange and its core business also includes IMT casings and glass casings, and water-proof components. Its revenue decreased around 7% year-on-year and net profit decreased around 20% year-on-year in the third quarter of 2019 due to weak demand from key customers. Its revenue contribution from metal mechanical business continue to decrease from 60% in 2018 to 50% in the first half of 2019, and its revenue from smart phone business decreased to less than 70% of its total revenue. The company has chosen to expand its product categories to include products such as USB Type-C connector for Android phones, smart wearable devices, touch pen and high voltage connector system and model for new energy vehicle;

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, and micro precision connectors respectively. In the first half of 2019, its revenue decreased around 6% year-on-year due to the slowdown in growth of smart phone market and the depreciation of China's Yuan, and growth margin rate slightly went down due to decreased shipment of metal back cover. While in the third quarter of 2019, its revenue increased around 8% year-on-year due to increased shipment of "Glastic" back cover. According to its announcement, the company also completed the research and development of the antenna of 5G base station for the further revenue growth;

v. Peer 5 is a Taiwan listed company, which specialises in light metal casing and its products include computers, communication and other consumer electronics. Thanks to the increased order of tablet metal cases from American customers and RMB depreciation, its gross margin turned a profit in the second quarter of 2019 and net profit turned profitable in the third quarter of 2019. For 2019 full year, its annual revenue is expected to slightly increased 6% year-on-year, and its net loss would decrease 62% year-on-year in 2019 according to an estimation from a research institution.

Since 2018, many smart phone vendors proceeded to adopt the metal mid-frame with glass/"Glastic" back cover for better Wifi/LTE signal performance and wireless charging, which lowered the utilization rate of CNC (Computer Numerical Control) machines, so the smart phone centric mechanical vendors were forced to adjust their product mix. Therefore, the Group will also put effort to diversify its product mix, and devoted 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 like Vietnam and India in the medium term.

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. But the amount working capital employed to finance system assembly business can be high. The Group's Indian operation is strong due to its ownership of a very large system assembly capacity and its vertical integration from PCBA to complete handset assembly. Due to the U.S.-China trade war, some customers in this industry are seeking manufacturing services out of China while there are only a few peers with existing overseas capacities or overseas capacities that are just being established, so the Group can utilize its existing capacities in India, Vietnam and other countries to secure more orders. 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 third quarter results, its gross margin rate and net profit rate remained at 3% and 1% respectively, but its revenue increased around 8% in the first nine months of 2019 due to increased shipment for key customer. Due to the U.S.-China trade war, this Taiwan peer has officially opened its new factory in Indonesia in the middle of 2019, and moved part of capacity back to Taiwan to avoid additional tariffs. 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. Its revenue largely increased and profitability also improved in the first nine months of 2019 due to new ODM customers and increased capacities in China and India as more and more smart phone brand companies are now adopting ODM solutions to remain competitive in the market. 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. Its net sales decreased by 9% year-on-year and posted a loss during the six months period ended 27 September 2019 primarily resulted from losing a key customer in China due to the U.S.-China trade war. The above comparison with the 3 peers showed that the OEM market still fluctuates and is highly competitive and the margins of system assembly business/industry is narrow due to the declined smart phone shipment.

Other income, gains and losses from the continuing operations for the current period was US$139 million, representing an increase of US$44 million from that for the same period last year, mainly as a result of the significant year-on-year decrease in foreign exchange loss. The Group had experienced a foreign exchange loss of US$57 million during 2019, when compared with the Group's foreign exchange loss of US$102 million during 2018. The Indian Rupee ("INR") appreciated from the peak of 71.7 per dollar down to 68.9 per dollar after prime minister Modi won the general election in the first half of 2019, however, due to the ongoing U.S.-India trade war and sluggish Indian economy, the Indian Rupee fell from 68.4 to the peak of 72.3 in the second half of 2019. In order to further reduce currency exposure and save hedging costs, the Group has modified the currency settlement mechanism business model with its customers for India business in the second half of 2019, therefore the exposure to Indian Rupee is expected to be decreased in 2020.

Fair value gain of equity investments at fair value through profit or loss increased by US$73.3 million to US$2.6 million for the current period (2018 fair value loss was US$70.7 million). Service income also decreased by US$35 million and service income for the current period is US$64 million (2018: US$99 million) and was mainly due to decrease in the product development service provided to customers.

Regarding operating expenses, for the current period was US$367 million, compared to US$470 million for the same period last year. For selling expenses and general and administrative ("G&A") expenses, with the effort of cost savings, there was a year-on-year decrease by US$7 million and US$39 million respectively. For R&D expenses, there was a year-on-year decrease of US$57 million and the decrease was mainly attained by the optimisation and rightsizing of staff force and stringent overheads and costs control. But there is a continuous investment in product innovation in order to remain competitive and offer unique values to customers. In light of the factors as mentioned above, loss attributable to owners of the Company from the continuing operations for the current period was US$33 million, as compared to a net loss attributable to owners of the Company from the continuing operations of US$679 million for the corresponding period last year. The net loss margin from the continuing operations for the current period was 0.2%, as compared to the net loss margin from the continuing operations of 4.6% for the same period last year.

Net profit and net profit margin are the financial KPIs measuring earnings/losses resulting from subtracting operating expenses and other gains and losses (such as equity investments fair value change) and tax and interest costs from gross profit earned and shows the residual of all revenues and gains over all expenses and losses for the period and result in net change in shareholders' equity that results from a company's operations. It measures the ability to control operating expenses and optimise tax and interest costs and minimise other kinds of non-operating gains and losses (such as equity investments fair value change). In light of the factors mentioned above, loss attributable to owners of the Company from the continuing operations for the current period was US$33 million, as compared to a net loss attributable to the owners of the Company from the continuing operations of US$679 million for the corresponding period last year. The net loss margin from the continuing operations for the current period was 0.2%, as compared to the net loss margin from the continuing operations of 4.6% for the same period last year. The net loss decreased by US$646 million for 2019, compared with net loss of US$679 million for 2018.

As at 31 December 2019, 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 successfully a company utilises the resources provided by its equity investors and the company's accumulated profits in generating income was 0.58% negative, when compared with the ROE as at 31 December 2018 of 39.97% negative. The Group strived to achieve a better ROE during the current period.

Income tax expense during the current period was US$28 million, when compared to income tax expense of US$4 million for the same period last year. The increase in income tax expense was mainly due to income tax incurred in certain profitable entities during the current period. During the period ended 31 December 2019, there was US$3.1 million impairment was recognised for property, plant and equipment, compared to impairment loss recognised for property, plant and equipment of US$6.1 million for the same period last year. Besides, impairment loss of US$2.4 million was recognised for interest in a joint venture during the current period. After evaluating the portfolio investments, the Group had disposed some of its investments in 2019 to realize the investment gain or minimize potential loss, and the Group will keep monitoring its remaining investment and seek exit opportunities for certain investment in 2020 to maximize the Group's profit.

Basic loss per share from continuing operations for the current period was US0.40 cent.

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 2019, nor has any dividend been proposed since the end of the current period.

Sales

For 2019, the Group recognised a consolidated revenue of US$14,379 million,representing a decrease of US$489 million or 3.3%, when compared to US$14,868 million for the same period last year. Since 2017, the Group started generating 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 and terminated its logistic and distribution business which inevitably impacted the performance of sales of this part of business and gross margin of the Group. But the Group continues to manufacture Nokia-branded feature phones. Thanks to the Group's continuous development and penetration of the Chinese and international brand customers and efforts to expand its global production footprint, the sales drop to HMD was partially offset by the sale to the new U.S. internet customer. For other major customers, there was not much dramatic year-on-year change as the market is really competitive and the customers face challenges and opportunities as well. System assembly sales remained flat in the current period whilst casing business continued to decline in the current period due to those unfavorable above mentioned. One of the Group's key customers in China estimated its revenue and smart phone shipment to increase no more than 20% in 2019, which was lower than the previous forecast due to the entity list by U.S. Commerce and lack of GMS service in newly released phones in oversea market. The other key Chinese customer faced challenge in China handset market due to the fierce competition but significantly grew in oversea handset market. For the Group's American customers, their revenue contribution increased when compared to 2018, and with the Group's global manufacturing footprint, they were able to move out the manufacturing from China in a speedy manner without facing any product shortage.

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 and strive to maintain a healthy customer mix and sales mix. 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 diversified 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. From 2017 to 2019, the competition continued to be fierce and price and margin erosion was still ongoing. However, the global phone shipment bounced back to growth since the third quarter of 2019, which mainly contributed to increased smart phone shipment in India. The India smart phone shipment recorded 152.5 million units with 8% year-on-year growth in 2019 and became the second largest smart phone market after China due to new model launches and price corrections on a few key models by various Chinese brands according to IDC. In China, although the market kept dropping in 2019, Huawei's shipment and market share largely increased since the end of second quarter through refocusing in China domestic market. Additionally, due to 5G roll out in China, more than 10 million units of 5G phones had been shipped just in the last two months of 2019. Regarding the African market, Africa's mobile phone market also bounced back to growth in shipments in the third quarter of 2019, with feature phone still accounting for around 60% of the total shipment. The IDC Quarterly Mobile Phone Tracker shows that Africa's mobile phone market grew from 52.2 million units in second quarter of 2019 to 55.8 million units in third quarter of 2019.

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 as the modular structure of the industry lowered the barriers for 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 similar to the computer industry. 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 with a high efficiency. As mentioned in the above sections of "Financial Performance" and "Sales", for current period of 2019, the year-on-year decrease of sales was mainly attributable to the corresponding change of the collaboration model with HMD. But as 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 Company undertook measures with the aim of achieving the objective that the gross loss margin of Nokia-branded smart phone manufacturing was reduced in the second half of 2019 and the Group's gross margin improved gradually. Following this, the Group can refocus on the Nokia branded smart phone projects with optimised profit margins, which has eased the margin erosion pressure. But at the same time, changes in product mix and crowded competition in the casing business (resulting from surplus capacity in the casing sector) and weak system assembly business margins and increasing high manufacturing costs, combined with the impact of U.S.-China trade war, have induced heavy pricing pressure on the Group and hence inevitably imposed pressure on gross margins.

In general, the Group has strived to improve efficiency and maintain a good and stable yield by enhancing production automation, asset utilisation and capacity optimization, quality assurance and quality control, and tighter control on manufacturing overheads and capital expenditure. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to diminish 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 will continue in 2019. The revenue of Asia segment in the current period was US$12,023 million, representing an increase of 2.5% from that for the same period last year (YTD 2018: US$11,725 million) and the increase was mainly due to Chinese and other international brand customers, offset with the reduction of support to Nokia Branded phones. In the current period, Asia segment's recorded earnings were US$230 million which were higher than the recorded earnings of US$257 million for the same period last year. 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 continue 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 has faced pressure this year and such pressure will prevail, Amid fierce competition, the China smart phone market continues to be the focus of the Group. Years ago, the strategy of the Group is to shift the gravity of operations and devote resources to Asia segment, including India and Vietnam, following the downsizing of European sites so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment and develop additional businesses and customers and serve existing customers in an improved manner. In particular, a lot of customers with phones shipping to the States have been moving some of their PRC operations out of China and have asked the Group to manufacture phones in other Asian countries like Vietnam.

  The Group believes that outside Asia Pacific, the biggest regions for growth will be Africa, Middle East, and Latin America. All these three regions have relatively low penetration rates and with large upsides. In anticipation of the good opportunities mentioned above, the Group has already set up and maintained handset assembly factories in India and Vietnam for years and has helped certain Chinese brand customers to develop business and grasp larger market shares in Asia and overseas markets outside of China in the past couple of years. With the lingering of trade war, customers are now flocking to Asian countries like Vietnam and the Group has kept reviewing its global capacities to optimise resources and capacity in emerging markets, including India and Vietnam. The Group continues to further align its manufacturing capacities with the geographic production demands of customers and expand its capacity and capability there. Sales of the Group's Indian operations in the current period were about 28% of the total sales of the Group due to the continuous growth of the business of a Chinese brand customer in India. The Group's factory operation in India is one of the largest contract manufacturers in India and the Group will continue to optimise its infrastructure and capacity in anticipation of additional Chinese customers in India. To this effect, the Group has injected additional capital of around US$100 million on 4 December 2019 and US$19 million in 19 December 2019 into its Indian operation.

- Europe segment:

The recorded revenue of Europe segment in the current period was US$1,106 million when compared with the recorded revenue of US$2,005 million for the same period last year and the revenue of Europe segment decreased in the current period. Despite all the actions and efforts that have been taken by the Group's Nokia branded phone business in the past two and half years, the overall performance has been poor. As competition remains fierce and given the difficulties in 2019, the Group has critically reviewed its business strategy at 2018 year end and will not accept Nokia branded phone orders with poor margin and at the same time, the Group's partner, HMD (which is a Finnish company and 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 other ODMs. As a result of such adjustment to the collaboration model with HMD, number of Nokia-branded phones smart phones sold to HMD decreased. The recorded earning of this segment in the current period was US$11 million, when compared with the recorded loss of US$376 million for the same period last year and there was improvement as less loss making smart phones were sold. In the previous two years, the performance of Europe segment has deteriorated dramatically which has adversely affected the performance of the Group and the Group has taken above appropriate actions to reduce and diminish the impact of this loss-making of this segment on the Group.

As 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 Group has taken measures with the aim of achieving the objective to reduce the gross loss margin of Nokia-branded smart phone manufacturing in the second half of 2019 and the Group's gross margin (excluding the impact to gross margin triggered by the discontinuance of phone distribution business) has improved gradually.

Additionally, the Group will continue to closely monitor and assess the impact of this segment on the Group's overall performance and cash flow.

- America segment:

  For the America segment, the recorded revenue in the current period was US$1,249 million when compared with the recorded revenue of US$1,138 million for the same period last year and the year-on-year increase largely came from the increase of sales to a U.S. based internet customer. Core businesses (both now and under development) of American segment entities located in the States 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 US customers. The recorded earnings for the current period were US$59 million when compared with the recorded earnings of US$48 million for the same period last year. Due to the increase of sales to the U.S. based internet company and the change to Group's Nokia-branded smart phone business strategy (and some more phones will be sold to the States), the performance of the America segment has a positive impact on the Group's overall performance in 2019. The Group will closely monitor the future development of this segment.

Investments

On the basis that the value of each of the investments mentioned below as of 31 December 2019 does not exceed 5% of the Group's total assets as at 31 December 2019, the Company does not consider any such investment as a significant investment for the purposes of the Listing Rules.

Although the 2019 global market has been sluggish and renders it difficult to identify investments of good potential, the Group has continued to enhance its EMS businesses and explore new opportunities of 5G related application and V2X (Vehicle-to-Everything) to reinforce the Group's dominant position in the mobile handset manufacturing industry and build up the Internet and the mobile ecosystem through investments and M&A (mergers and acquisitions) opportunities and activities.

Investments in 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 Nokia-branded 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 a goodwill of US$79.4 million. Due to the unsatisfactory performance in 2018 and based on the valuation carried out by an independent professional valuer, the Group has fully impaired the goodwill of US$79.4 million in 2018 year end.

The challenging market environment in 2019, coupled with HMD's challenges of scaling the supply chain to meet the diverse portfolio needs had an adverse impact on HMD's sales and profitability in the first half of 2019. In May, HMD switched to a multi-ODM set-up to launch its new phones. This supply chain expansion from FIH as the only supplier into multi-ODM model was motivated by improving purchase price competitiveness, reduction in component liabilities, faster time to market and stronger ramp-up capability to capture early months demand with higher probability. New supply chain ramp up has been a success for HMD and results are already visible in business performance. At the end of 2019, almost all of HMD's smart phone portfolio is manufactured by the new ODMs.

Feature phone business has been managed conservatively with a focus on profitability to adapt into supply chain cost level, and FIH is the sole supplier.

The multi-ODM model, coupled with a more focused approach on selected markets and hence profitability, helped HMD to turn operating margin (EBIT) positive for the first time in the fourth quarter of 2019. Feature phone profitability was also significantly improved without compromising the market position of Nokia brand. HMD is committed to continuously drive meaningful innovation across its portfolio, including the feature phone segment, to maintain industry leadership. In smart phones, the focus remains on offering signature experiences that consumers have come to expect from a Nokia phone — data security, durability, quality, design and long battery life.

Looking forward, HMD is optimistic that consumers look for Android phones which offer high level of security, software updates and upgrades. Mobile market has drifted towards a fast-paced and quick transition road mapping making a new phone feel old after a short while. At the same time products are more and more differentiated on software than hardware. New innovations in the industry will be more software led. HMD's promise of always up-to-date Android is unique. It enables HMD to define products where Android services are flawlessly integrated into hardware experience. Good example of that is dedicated hardware key for Google Assistant in 2019 portfolio — aimed at offering a unique user experience to Nokia phone fans.

The promise of pure, secure and up-to-date Android has resonated very well with the enterprise customers, where typically Android adoption has been restricted unless separate expensive security solutions were used. Nokia smart phones offer a secure solution, right out of the box without any needs for additional investments from the enterprise customers. HMD has a broad portfolio of Android Enterprise Recommended smart phones for this segment. HMD is seeing a similar trend emerging among consumers who care about their privacy and in general want to own products which offer a secure software experience — one that keeps getting better through regular updates. During 2019, HMD won a number of significant contracts with large enterprise customers.

In the feature phone segment, HMD is striving to add new functionalities to offer a 'smarter' experience to the consumers. At the same time, HMD is helping operators transfer subscribers from 2G to 4G networks and offer them a more connected experience at an affordable price.

HMD started Series B funding round during the first half of 2019. This is the third funding round for HMD after seeding round in start-up phase, and Series A that was closed in the second quarter of 2018. Main purpose of Series B round is to collect funding to deliver growth plan, strengthen the balance sheet and expand the investor base. HMD hopes to close the Series B funding round in first half of 2020.

The Group previously invested US$64.5 million in HMD, which represented about 10.10% (calculated on as-converted and fully-diluted basis) of the total issued shares of HMD as at 31 December 2019.

With reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in HMD as at 31 December 2019. The Group did not recognise any fair value change for the Group's direct and indirect investment in HMD through other comprehensive income ("OCI") in 2019. The investment team will monitor the progress of the fund raising and its cash position and business performance and impact of COVID-19 to its business.

Other Major Investments

The Group invested in Mango International Group Limited ("Mango"), a company which offers mobile services in the tourism sector. The Group fully impaired the Group's investment in Mango in year 2018. In April 2019, considering the material uncertainties and doubts of going concern, the Group decided to sell the convertible note to an institutional private investment firm ("Buyer"), specialising in Chinese distressed debt and structured credit, to maximise the Group's return in this investment, and resigned from the board. Therefore, the investment in Mango is reclassified from interest in associates to financial assets at fair value through other comprehensive income ("FVTOCI"). The Group and the founders of Mango ("Founders") also entered into an agreement that the Group has the right to request the Founders to transfer certain number of their own shares to the Group to compensate the loss. During the course of the transactions, the management of the Company's evaluation of Mango's management accounts, cash flow analysis, financial forecasts, business performance and prospects, valuation analysis and other relevant information and documents then available, and also the relevant negotiations and documentation with the Founders and management of Mango, existing investors and the Buyer respectively (with the aim to securing more favourable terms for the Group as a viable partial-exit opportunity of the Group to optimise the Group's return from part of its investment in Mango in the circumstances), were recorded and reported to the Board for its consideration. In June 2019, the Buyer converted part of the convertible notes and became the largest shareholder with over 60% shares of Mango. In August 2019, the Founders had completed the shares transfer to the Group, and therefore the Group now holds around 9.6% of the total issued shares of Mango.

In August 2016, the Group invested approximately US$50 million in Hike Global Pte. Ltd. ("Hike"), an Indian-based social media application developer and accounted for as FVTOCI. Hike built up an instant peer-to-peer messaging application with localised lifestyle functions. In March 2019, Hike officially launched a new application called Hike Sticker Chat ("HSC"), which allows user to communicate by sending predictive sticker-based messages to reduce the dependency on the keyboard. As for now, the HSC has successfully crossed 2 million WAU (Weekly Active Users) without conducting any major marketing investment. In the second half of 2019, HSC has been recognized as one of the 'Best Everyday Essential Apps' of 2019 by Google Play. Hike has also launched HikeMoji which is available in 7 regional languages and allows users to choose from 1,000+ components integrating hyper local clothing, hairstyles, accessories as well as access to 100+ exclusive HikeMoji stickers. Over one million HikeMoji Avatars have been created within 2 months from the date of launch. Hike also invested in the first local real money casual gaming platform with 20+ games and a great revenue. Though Hike has tried to provide various functions and monetize its users and platform in 2019, it would still need more time to continually grow its users and revenue size to reach an economics of scale. Based on the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in Hike as at 31 December 2019. The Group took corresponding adjustment to the fair value change in this investment.

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. Razer has designed and built the world's largest gamer-focused ecosystem of hardware, software and services. In the first half of 2019, Razer's revenue increased 30% year-on-year, and the net loss also improved mainly due to its triple-digit growth in service revenue. On 2 January 2020, Razer announced "Razer Fintech" has submitted its application for a Digital Full Bank License and will be approved by the Monetary Authority of Singapore ("MAS") to establish the "Razer Youth Bank". For 2019 full year, a research institution expects Razer's revenue to grow 15% year-on-year and its net loss to narrow 10% year-on-year, and be able to turn profitable in 2020. As the continual growth in revenue and improved profitability, its share price increased 21% (from HKD1.05 per share to HKD1.27 per share) during 2019. Thus, there was US$0.7 million of fair value gain recognised in profit or loss during 2019 for the Group. As at 31 December 2019, the fair value amount of Razer is US$3.7 million and the Group holds 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. In 2018, the loss of a significant customer and low sales volume impacted CEx's overall income, which resulted in a sustaining loss, therefore the Group had fully impaired this investment by the end of 2018. The Group finally decided to dispose of its interests in CEx in 2019. The Group then discussed with a couple of potential buyers, and after rounds of negotiations, the Group entered into an agreement to sell all 49% of the Group's membership interests of CEx to the relevant buyer in December 2019. During the course of the transactions, the management of the Company's evaluation of CEx's management accounts, cash flow analysis, financial forecasts, business performance and prospects, valuation analysis and other relevant information and documents then available, and also the relevant negotiations and documentation with the founders and management of CEx and the relevant buyer respectively (with the aim to securing more favourable terms for the Group as a viable exit opportunity of the Group to optimise the Group's return from its investment in CEx in the circumstances), were recorded and reported to the Board for its consideration.

The Group invested US$1 million in CloudMinds Inc. ("CloudMinds"), an operator of cloud-based AI robots in China in 2015. During the first half of 2019, CloudMinds successfully closed series B financing, and filed with the U.S. SEC (Securities and Exchange Commission) to propose maximum aggregate IPO (Initial Public Offering) size US$500 million on 12 July 2019, and in the second half of 2019 CloudMinds provided the updated financial results in the first half of 2019 on 12 September 2019 in accordance with the SEC's listing rule. Currently CloudMinds is evaluating the appropriate market window to launch the IPO, and is also discussing with prospective investors for further capital injection prior to the IPO to support the strong business growth needs. The company has grown its business and revenues in 2019, and would keep expanding its customers and products in the upcoming year based on the performance in 2019 and the forecast for the next three to five years and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in CloudMinds as at 31 December 2019. The Group recognised a fair value gain of US$13.8 million in other comprehensive income during the current period. As at 31 December 2019, the fair value of CloudMinds is US$14.8 million and the Group's investment represented 0.88% of CloudMinds on a fully-diluted basis.

The Group invested around US$2.5 million in Jiangsu Liangjin Electronic Commerce Share Co., Ltd ("Liangjin"), a distributor of mobile devices and accessories, which is quoted and traded on the PRC's National Equities Exchange and Quotations, also known as the "New Third Board", with stock code 834438. In April 2019, Liangjin released its qualified audit report due to the inestimable impact of an ongoing lawsuit and material uncertainty related to going concern because of its negative net value as at 31 December 2018, and Liangjin's first quarter report in 2019 also showed its current assets was largely lower than its current liabilities. In addition, all transaction of Liangjin's shares were suspended because of the lack of support from sufficient market makers since 5 June 2019. In the second half of 2019, the company made further announcements regarding the resignation of certain board directors and the chief financial officer of Liangjin due to their personal reasons. Considering Liangjin's performance and the liquidity of its shares, the Group took corresponding adjustment to the fair value change in this investment. As at 31 December 2019, the Group's investment represented 4.41% of Liangjin's total issued shares.

The Group invested in Ways Technical Corp. Ltd. ("Ways") since 2008, which was founded in 2001 and specialising in plastic surface decorating techniques. The shares of which are listed and traded on the Gre Tai Securities Market of Taiwan with stock code: 3508 since 2007. During the period from December 2018 to April 2019, the Group disposed of all remaining 12,105,248 shares, represented 11.8% of Ways, for around US$11.9 million during the first half of 2019 to maintain a healthy cash flow for its core business.

The Group invested around US$0.7 million in Augentix Inc. ("Augentix") by subscribing Augentix's convertible note in December 2019. Founded in 2014, Augentix is a fabless multimedia SoC (System on Chip) design company based in Taiwan. Its product offering features with efficient intelligent vision applications using proprietary algorithms and hardware accelerations. The first SoC series of Augentix has been adopted by leading brands and platforms in the fields of home IoT (Internet of Things), professional IP camera, and consumer surveillance products. With its emerging new SoC platform available in 2020, Augentix is expected to provide broader AI applications in car dash camera, ADAS, and robots. Through this investment, the Group expects a deeper collaboration with Augentix to further develop in IoT and V2X industry.

The Group also made certain investments in other companies designated as FVTOCI mainly in China, India and U.S. in the past few years. In China, the Group's investments mainly include a smart home company who provides smart door lock and other IoT products, a technology company who provides educational robots, and a company who provides medical devices for people with myopia. In India, the Group's investments mainly include a data-driven advertising technology company. In 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 2019, the fair value of the Group's equity investments designated as FVTOCI was US$124 million, which represented 1.77% 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 invariably cautious, 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 and outlook of investees. In 2019, the Group had disposed of some investments, 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 is not currently aware of any potential cause which would lead to any substantial loss arising from the change in the fair value of the Group's investments in certain listed companies in the first half of 2020. 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, IoV (Internet of Vehicle) and AI for building up the Internet and the mobile ecosystem, which includes but not limited to IoT smart devices, smart home products, IVI (In-Vehicle Infotainment) and telematics system, V2X (Vehicle-to-Everything) technologies, or others for synergies creation via establishing strategic partnerships with technology companies. Among the characteristics that the Group looks for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations and new business including IoV; 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 throughout 2020.

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, foreign exchange control and intellectual property in the principal jurisdictions in which the Group's operations and investments are situated, and (as the shares of the Company have been listed and traded on the Stock Exchange) applicable requirements under 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 the relevant jurisdictions. 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, as advised by the relevant local legal advisers and tax advisers, the newly-promulgated local laws and regulations applicable to the Group's operations in the PRC, India and Vietnam (being the jurisdictions which are considered, in terms of the scale of businesses and operations as well as the number of employees, factory units and office units, to reflect the comparatively significant impacts of the Group's overall business unit/group operations) that have a significant impact on the Group are highlighted and summarised as follows, in addition to those set out from page 67 to page 69 of the Company's 2019 interim report as issued and published on 9 September 2019:

PRC

For value-added tax (VAT), please refer to the background and previous developments as respectively described in page 28 of the Company's 2018 annual report as issued and published on 9 April 2019 and page 67 of the Company's 2019 interim report as issued and published on 9 September 2019. From an enterprise's perspective, this VAT reform has been good news and favourable to the Group since its promulgation as less cash has been and will be needed for domestic purchases. On 27 November 2019, the Ministry of Finance and the State Administration of Taxation jointly issued the draft Value-Added Tax Law (consultation draft) (Draft VAT Law), which is an important milestone for the "principle of taxation legitimacy" of the PRC. The Group will continue to monitor the legislation process of the VAT regime and assess the potential impacts of the Draft VAT Law on the Group in anticipation of its enactment. In the meantime, it is currently envisaged to have potential impacts on the Group's PRC operations, including the following: (i) the Draft VAT Law may offer two options for excess input VAT credit (i.e. either to claim refund or to carry-forward to the forthcoming tax periods, when the latter option is currently the only option), and subject to any implementation details as to how this may work in practice under the refund mechanism, the Group's PRC subsidiaries may increase their respective cash flows when choosing the option to claim refund of the excess input VAT credit; and (ii) the Draft VAT Law may remove the current tax periods of 1 day, 3 days and 5 days, which may benefit the Group's PRC subsidiaries by reducing their respective administrative burden and resources due to less frequent preparation and filing of VAT returns, and also, by increasing their respective cash flows due to longer tax period when they may pay VAT later than before.

In respect of foreign investment laws and regulations, further to the Foreign Investment Law (FIL) promulgated by the National People's Congress on 15 March 2019 as described in page 68 of the Company's 2019 interim report, Implementation Regulations on Foreign

Investment Law and a series of supporting regulatory documents[1] (which were issued in December 2019) have also come into effect on 1 January 2020, which have provided for further details, clarifications and practical guidance regarding certain aspects of the FIL. The above-mentioned legal stipulations have brought considerable changes to the foreign investment regime in the PRC, and are believed to create a friendlier and more efficient market for foreign investors in the PRC. Certain key changes to the PRC's foreign investment system and potential impacts on the existing PRC foreign-invested entities (FIEs) of the Group are highlighted and summarised below:

- Corporate Governance Structure: Prior to the FIL having taken effect, foreign investment was mainly governed by the Sino-Foreign Equity Joint Venture Law, Sino-Foreign Cooperative Joint Venture Law and Foreign Enterprise Law (collectively, Initial Foreign Investment Laws). Since 1 January 2020, the Initial Foreign Investment Laws have been repealed and replaced by the FIL, and corporate governance laid down in the PRC Company Law applies to FIEs. To this end, the governance structures and constituent constitutional documents of FIEs shall be adjusted to accommodate the corresponding requirements under the PRC Company Law, which may imply additional costs of regulatory compliance. That said, the FIL provides for a five-year transition period from 1 January 2020 until 31 December 2024 for existing FIEs to conform with the PRC Company Law. The Group has been assessing this aspect, and will devise and implement appropriate corporate initiatives and actions for FIEs.

- Information Reporting System of Foreign Investment: The establishment of or corporate changes in FIEs, which fall out of the Negative List[2], is now only required to submit an initial report or change report (as applicable) to the competent Ministry of Commerce through the online enterprise registration system. Such a reporting system will reduce the administrative burden on FIEs significantly.

India

The Indian Government has brought in the Taxation Laws (Amendment) Ordinance, 2019 to make certain amendments to the Income-tax Act, 1961 and the Finance (No. 2) Act, 2019. This was stated by the Union Minister for Finance and Corporate Affairs Mrs. Nirmala Sitaraman during the press conference held in Goa on 20 September 2019. The amendments applicable to the Group and/or the relevant Indian subsidiaries of the Company as well as their respective impacts on the Group during the current period are highlighted and summarised as follows:

- In order to promote local economic growth and investments, with effect from the financial year 2019/2020, any Indian company can avail itself of an option to pay

[1] The supporting regulatory documents include, but are not limited to, the "Measures for the Reporting of Foreign Investment Information", the "Announcement on Matters Concerning the Reporting of Information on Foreign Investment" and the "Circular on Effective Work on Registration of Foreign-invested Enterprises for the Implementation of the Foreign Investment Law".

[2] Negative List means the "Special Administrative Measures for Access of Foreign Investment" issued by the State Council, which is an official list of specific sectors that are subject to special administrative measures on foreign investment entry.

income tax at the effective rate of 25.17% (the standard rate of 22% plus applicable surcharge of 10% and education cess of 4%) on the condition that such company does not avail itself of certain specified tax incentives or exemptions under the Income-tax Act, 1961. It will significantly reduce the tax burden (approximately 9%) of the Group's Indian subsidiaries.

- In order to attract fresh and further investments in local manufacturing industry, any new Indian manufacturing company incorporated on or after 1 October 2019 has been and will be allowed to pay corporation income tax at the effective rate of 17.16% (the standard rate of 15% plus applicable surcharge of 10% and education cess of 4%) on the condition that such company does not avail itself of certain specified tax incentives or exemptions under the Income-tax Act, 1961, and also commences production on or before 31 March 2023. The Group may contemplate establishing a new subsidiary (instead of injecting any new manufacturing-related business into an existing Indian subsidiary) to avail itself of this benefit, in which case much lower corporation income tax rate is applied.

- Moreover, no minimum alternative tax (MAT which is a tax effectively introduced by the Finance Act of 1987, vide Section 115J of the Income-tax Act, 1961, to facilitate the taxation of "zero tax companies", i.e. those companies which show zero or negligible income to avoid tax) has been and would be imposed on the above companies. With the move of removing MAT, the Group's Indian subsidiaries (which would otherwise be obligated to pay minimum tax as per the MAT provision) can benefit from the lower income tax rate.

- A company which does not opt for the concessional tax regime and avails itself of certain specified tax exemption(s)/incentive(s) shall continue to pay income tax at the pre-amendment rate (the standard rate of 25% for domestic companies with a total turnover of up to INR four billion per annum; 30% for other domestic companies; and the highest effective rates are 29.12% and 34.94% respectively). However, this company can opt for the concessional tax regime after the expiry of its tax holiday/exemption period. After the exercise of the option, such company shall be liable to pay income tax at the effective rate of 25.17%, and the option (once exercised) cannot be subsequently withdrawn. Further, in order to provide relief to companies which continue to avail themselves of certain specified tax exemption(s)/incentive(s), the MAT rate has been reduced from 18.5% to 15%. As the Group's Indian subsidiaries have opted for effective income tax rate of 25.17%, it has significantly reduced their tax burden, and in addition, with this option, they do not need to pay minimum tax as per the MAT provision.

Apart from the above, the Group also takes into account the relevant laws and regulations regarding global 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 more documentation requirements triggered by the local transfer pricing documentation and Country-by-Country Reporting (CbCR) obligations in the jurisdictions where the Group operates. The Group falls within 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 and tax 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 2018 environmental, social and governance report as issued and published on 9 April 2019, bearing in mind that the Company's separate 2019 environmental, social and governance report is tentatively scheduled to be issued and published in April 2020.

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 2019, the Group had a cash balance of US$1,545 million (31 December 2018: US$1,419 million). Free cash flow, representing the net cash used in operating activities of US$455 million (31 December 2018: net cash used in operating activities of US$814 million) minus capital expenditure of US$210 million (31 December 2018: capital expenditure of US$277 million), was US$665 million outflows (31 December 2018: US$1,091 million outflows). Free cash flow improved 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$606 million (31 December 2018: US$1,427 million) over total assets of US$7,003 million (31 December 2018: US$8,904 million), was 8.65% (31 December 2018: 16.03%). All of the external borrowings were denominated in USD and INR (31 December 2018: 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 2.14% to 7.85% (31 December 2018: fixed rate ranging from 2.76% to 4.40%) per annum with an original maturity of one to six months (31 December 2018: two to twelve months).

As at 31 December 2019, the Group's cash and cash equivalents were mainly held in USD and RMB.

Net cash used in operating activities during the current period was US$455 million.

Net cash from investing activities during the current period was US$1,444 million, of which, mainly, US$210 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC and India, US$1 million represented acquisition of equity instruments at fair value through other comprehensive income, US$0.7 million represented acquisition of convertible notes, US$46 million represented withdrawal of bank deposits, US$1,040 million represented purchase of short-term investments, US$1,209 million represented proceeds from disposal of financial assets at fair value through profit or loss, US$12 million represented proceeds from disposal of equity instruments at fair value through profit or loss, US$10 million represented proceeds from disposal of property, plant and equipment, US$5 million represented proceeds from disposal of land use right classified as right-of-use assets, US$1,414 million represented proceeds from settlements of short-term investments and US$0.2 million represented proceeds from disposal of an associate.

Net cash used in financing activities during the current period was US$871 million, primarily due to net decrease in bank borrowings of US$818 million, interest paid on bank borrowings of US$39 million, interest paid on lease liabilities of US$1 million, repayment of lease liabilities of US$10 million and payment on repurchase of Shares of US$2 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. As mentioned above, the Group has modified the currency settlement mechanism business model with its customers for India business in the second half of 2019, therefore the exposure to INR is expected to be decreased in 2020.

Capital Commitments

As at 31 December 2019, the capital commitments of the Group was US$11.1 million (31 December 2018: US$7.9 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 2019 and 31 December 2018.

Donations

The Group has, in the financial year ended 31 December 2019, made donations for charitable or other purposes to a total amount of approximately US$7,000.

Outlook

Global smart phone shipments have declined for three consecutive years due to saturation in certain markets and lower than expected growth in others. Before the outbreak of the coronavirus, IDC estimated smart phone shipments to rebound from 2020, and the smart phone shipments will grow slightly from 1.38 billion in 2019 to 1.49 billion in 2023 mainly due to the ambitious 5G plans in China and aggressive product pricing for the market to grow. In addition, faster than expected adoption in entry level 4G smart phones in emerging and developing countries will lead to a continuous decline in feature phone shipments from 416 million in 2019 to 240 million in 2023, resulting in a CAGR of -13%. After the coronavirus outbreak, IDC updated the estimation stating that China smart phone shipment would decrease more than 30% year-on-year in the first quarter of 2020, but thanks to the roll out of 5G phones, the smart phone ASP would increase around 10% when compared to 2019. Counter Point Research also predicts that 5G phone shipments wound reach 150 million in China in 2020, which will account for 56% of the global 5G phone market. The other important mobile phone market — India, IDC expects double-digit growth in 2020 will be difficult to achieve because the ASP of smart phone is expected to rise by 8.5% to around US$220 in 2020 and the replacement cycle has been extended from 12–16 months to 20–24 months, and Counter Point Research echoes the prediction on shipment with a single-digit growth of 6%–9% in 2020 due to low demand of feature phones. In U.S., IDC expects the year 2020 smart phone ASP would grow more than 20% to US$647 compared to 2019, but the longer lifecycle will cause a slight decline of shipments of less than 1%.

In addition to rapid technology advancements and shifts in customer preference in the mobile phone industry, the recent geoeconomic risks will also have a significant influence on this market. On 22 March 2018, to make changes to what the U.S. said was "unfair trade practices", U.S. President Trump introduced tariffs on US$60 billion worth of Chinese goods, kicking off the U.S.-China trade war and escalating the war of words between the world's two largest economies into a full-blown trade conflict. With the market concerns around the U.S.-China trade war and its effects on China's weakening economic growth, the RMB dropped to its lowest point (7.18 to the dollar) in more than a decade in August 2019. Apart from impact to the RMB, more than 50 global companies, including Apple and Nintendo, have already announced plans to move production out of China due to U.S.-China trade war according to Nikkei research. United Nations' analysis published in November 2019 also found that China's export losses in the United States have resulted in trade diversion effects to the advantage of Taiwan in the communication equipment and office machinery sector and Vietnam in communication equipment sector. After almost two years in trade dispute between the two power countries, U.S. and China have finally reached a truce and formally signed the phase one trade agreement on 15 January 2020. China has committed to increasing its U.S.

imports by at least US$200 billion over 2017 levels, boosting purchases of agriculture by US$32 billion, manufacturing by US$78 billion, energy by US$52 billion and services by US$38 billion for the next years. And the agreement also covered some key topics including intellectual property, tech transfer and currency enforcement. However, the phase one deal is just the beginning. The US will maintain up to 25% tariffs on an estimated US$360 billion worth of Chinese goods as Trump said the remaining tariff would be the point of the following negotiation. Although no further tariff cut in the phase one trade deal but as the deal helps to ease the tensions of trade war, the offshore RMB strengthened 0.1% to 6.89 per dollar following the announcement of phase one agreement. On 6 February, as to advance the healthy and stable development of U.S.-China trade, China's Customs Tariff Commission of the State Council has published a statement to halve the tariff on US$75 billion worth of U.S. import good starting from 14 February, the decision will drop 10% tariffs on some goods to 5%, other tariffs will go down to 2.5% from 5%. There is still a possibility that the trade war may intensify in the future in the absence of agreement on a phase two deal. Especially, as the U.S. election nears, the U.S. may take a tougher stance to gain support of voters. The bipartisan support for a tougher stance may increase the likelihood that the trade war continues, with the possibility of intensifying in the future, especially Trump said his administration will start negotiating the phase two U.S.-China trade agreement soon but that he might wait to complete any agreement until after November's U.S. presidential election.

The U.S. Department of Commerce has disrupted the smart phone industry by placing Huawei Technologies Co. Ltd. ("Huawei") and its affiliates on its "entity list" on 16 May 2019, which prohibits it from buying, selling or using anything from technology to components from U.S. firms. The loss of Huawei as a major player in the global smart phone market could also have a wider impact on the smart phones other vendors are pushing out. The Chinese brand's aggressive development of new technological capabilities has forced rivals to significantly improve their devices and push out new advancements of their own, and any diminution of its influence would likely slow the rate of development. On 19 August 2019, the U.S. Commerce Department extended the reprieve for 90-day, so that the American companies can continue to work with Huawei. According to IDC, while other vendors saw a decline in shipments, Huawei's global phone shipment increased 28% year-on-year worldwide for the third quarter of 2019 mainly due to the growth of 65% year-on-year in China. On 18 November 2019, Huawei received another 90-days reprieve of the ban from Trump's administration, and recently the administration issued a further 45-days extension on 13 February 2020, so the ban is now set to take effect after the beginning of April 2020. However, before the signing of phase one agreement with China on 15 January, the U.S. pressured British officials to block Huawei from its 5G network, and U.S. senators proposed over US$1 billion in 5G subsidies to counter Huawei dominance on 14 January 2020, which shows the uncertainty that Huawei will continue to face in the future. Nevertheless, on 29 January 2020, U.K. allowed Huawei to build part of its 5G network considering the cost and roll-out schedule when comparing to other telecom equipment companies. Although the ban was postponed, according to Tom Kang, analyst of Counterpoint, it may still impact Huawei's overseas shipment in Europe, Japan or Latin America due to Huawei being unable to use Google Mobile Services (GMS) and the high dependence of consumers in those nations on GMS. At the same time, Huawei, to mitigate risk of component shortage due to the entity list, is continuing to seek secondary sources for U.S. imported key components. The Group will closely monitor the progress of the trade war and the resulting impact. It is expected that the Group's expansion of its operations in India and Vietnam, which helps its customers relocate their production will help to mitigate the adverse impact.

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. China, still the world's largest smart phone market with roughly one third of all smart phones consumed, faced both challenges and opportunities this year. On the bright side, China smart phone sales volume narrowed its decline to -6.2% year-on-year in 2019 from the -15.6% decline in 2018 according to CAICT (the China Academy of Information and Communications Technology). Before the outbreak of COVID-19, the IDC Worldwide Quarterly Phone Mobile Tracker even shows that the worldwide smart phone market is predicted to grow 1.5% year-on year in 2020 with shipments totaling 1.4 billion, of which 5G smart phones will account for 14% or 190 million pieces. The chip maker Qualcomm and chip contract manufacturer TSMC predict close to 200 million 5G phones will ship in 2020, and Qualcomm even further predict around 450 million 5G phones will ship in 2021. Based on the latest China Mobile Phone Market report issued by CAICT on 9 January 2020, more than 10 million 5G phones had been shipped just in the last two months of 2019 in China. With the expectation of accelerated adoption of 5G phones as phone ASPs come down, the China market may be able to slow down the sales volume decline.

Although the decline in Chinese market is slightly improved, the top five brands of the China handset market 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 a historical high 93.5% of China domestic market share in 2019 when compared with 87.5% 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 in the past, our peers faced similar aforementioned risks and have chosen to diversify their product mix.

The continuous decline in the Chinese market in the past few quarters led to a decline in the overall growth of some key Chinese brands. These brands have been investing in countries and regions outside China to offset the weak demand in the domestic market and the impact from U.S.-China trade war. The key markets for Chinese brands expansion so far are India, South-East Asia, Europe, Middle East and Africa. The Group has helped these Chinese brands to expand and internationalise rapidly in overseas markets, and these customers want to further 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. In addition, as the Group acquired a manufacturing facility in Vietnam on 18 May 2016, various customers have undertaken the necessary steps to move their manufacturing to Vietnam during 2019 as a precaution, and the Group has expanded its capacity and capability there to meet its customers' need. Through the localization of raw materials, the Group is further reducing the cost and improving the quality of its Vietnam facility and the capacity so that the Group could better serve its customers in the future.

From product perspective, with the popularity of innovation and technology, the smart phone industry has become commoditised and highly homogenised products with standardized 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 RAM capacity, higher penetration of OLED screens, under screen fingerprint, artificial intelligence (AI), facial recognition, AR/VR/3D modeling and 5G functionalities. Furthermore, the average unit price of the overall smart phone is expected to reach US$416 in 2022, an increase of 28% compared with 2018, while 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 the Group is continuing to invest in the future and is 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 unibody metal casing to middle frame with glass/"Glastic" back cover. A few peers of the Group also engaged in the research and development of antenna for 5G station or smart phone, trying to diversify their product mix and grow their revenues. The Group has devoted non-stop effort to satisfy customers' demand in product innovation and cost competitiveness with the expectation to increase the utilisation of manufacturing equipment and facilities of the Group, which ultimately will benefit the gross profit.

As the smart phone industry is dynamic and competitive, a slowdown in growth leads to industry consolidation, which results 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), which 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 agile by making quick business and operational decisions. 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 kept investing in research and development and cultivates research talents to secure the competency and 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 teams that are composed of experienced talents with superior industrial design capabilities and solid experiences in mass production, which makes the Group has its own capabilities of creation, qualities, yield rate, mass production, and customized design and 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 Group's ability to continuously upgrade its technology and stay ahead of Chinese competitors will be a big determinant in the Group being able to maintain competitive advantage and secure higher margins. The R&D team will continue to innovate on technologies and products such as industrial design, image and audio quality, user experience, AI technology, data module, network product, A IoT devices and automotive product, innovate existing and beyond mobile products, and 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.

In light of the poor performance of the Group in the past two years and the difficulties 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 at the end of 2018 that HMD will not only seek the Group's support but will also contract with other ODMs to enhance its supply chain flexibility, and cost and price competitiveness at the end of 2018. In 2019, the Group continued to manufacture HMD's second and third generation/wave smart phone products, which have been introduced in the market for a period of time, until the end of the product lifecycle and design and manufacture Nokia-branded feature phone programs and smart phone programs of satisfactory margin for some overseas markets. During 2019, the change in the collaboration model decreased the loss making sales to HMD but at the same time greatly reduced gross loss contributed to this customer. The drop in sales brought about by HMD's new direction was partially offset by sales to U.S. internet companies and other existing Chinese customers. The Group's cessation of its logistics and distribution business as of 1 January 2019 has resulted lost distribution income for the Group that would have otherwise been generated from that business (sales income from logistics and distribution business for the year ended 31 December 2018 totaled around US$61.77 million). However, selling expenses which were incurred to generate distribution income have been reduced significantly in 2019. As a whole, the Group's gross margin turned profitable in the first half of 2019, followed by a net profit from the continuing operations in the second half of 2019. However, margin erosion pressure of system assembly and casing businesses will continue to persist and the Group has attempted and implemented various measures to mitigate the impact and foster long term relationships with customers to improve P&L performance.

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 Ways. The Groups has disposed all holding in Ways ordinary shares in the first half of 2019 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 2020.

The mobile phone manufacturing business is facing various new challenges and opportunities, which have not been encountered before. Although the saturation of the smart phone market has also exerted tremendous pressure (margin erosion) on the entire handset industry, the shipment decline observed slightly improved due to strong performance by certain Chinese brand customers in the third quarter of 2019. Additionally, the Group also expects organic growth from other customers of the Group in 2020. Although the Group has been doing OEM, ODM and IDM for mobile phone manufacturers for years, the Group will pursue new opportunity and engage in relevant products including 5G phones and other 5G devices as well to ensure competitiveness in the upcoming 5G era.

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 low labour costs, 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. The recent trade war of China with the U.S. especially highlighted the need of changing the mix of China's GDP. China published a 6.0% year-on-year GDP growth rate in the third and fourth quarter of 2019, which hit the 27 years low. The 2019 full year GDP growth of 6.1% was in line with market expectations but substantially lower than 2018 6.6% GDP growth. As the ongoing trade war and sluggish global demand, IMF even expects China's GDP to further decrease in the upcoming year. In addition, it is worth noting that China's corporate debt has been rising in the previous years and an increasing number of defaults has been observed due to the sluggish economy, which indicates the rising credit risk of China.

China's traditional OEM and manufacturing industry is facing huge challenges and with the declining support from the government, the industry has to transform and upgrade from an existing "world factory" to the "artificial intelligent leader" and incorporate automation in order to survive. That is the reason why the Group is introducing the "Industry 4.0" smart manufacturing paradigm to reduce manufacturing costs and maintain competitive advantage. However, implementation of Industry 4.0 will take time and the Group is now making effort on this.

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in 2020. 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 Company's 2018 corporate governance report which forms part of the Company's 2018 annual report as issued and published on 9 April 2019, bearing in mind that the Company's 2019 annual report (incorporating its 2019 corporate governance report) is tentatively scheduled to be issued and published in April 2020.

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 shipments due to the smart phone market saturation. Pricing pressure has also been higher than expected. 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 margin performance and continue to monitor the impact of factors affecting business of customers and its financial health. For the Nokia-branded smart phone business, the Group has become selective when receiving orders from HMD and HMD can engage external ODMs. Handset market is highly dynamic and competitive and there are negative factors such as unfavourable product mix, increasing pricing pressure and price hikes in components and it is extremely challenging to simultaneously maintain market share and defend against margin erosion pressure while remaining cost competitive, lean and agile, and technologically advanced.

5G is increasingly touted as game-changing technology. However, in regards to 5G devices, it is anticipated that most consumers may not be willing to buy 5G phone at this moment due to its high price and the uncompleted ramp-up of 5G networks. In addition to this, consumers may also not be willing to buy 4G devices during such transition period from 4G to 5G, and may wait for the second generation of 5G phones with a lower price. According to a GSMA report, 5G is on track to account for only 15% of global mobile connections by 2025, as a number of 5G network launch and production of compatible devices ramp up in 2019.

Risk Associated with Trade War

Although the direct impact of tariff increases on the 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. The Trump administration has put Huawei to its entity list in May 2019, which prohibits U.S. hardware and software companies from doing business with Huawei. By doing so, it adversely weakens Huawei's ability to compete in the fierce smart phone market. Fortunately, on 19 August 2019, U.S. Commerce Department extended the reprieve for 90-

day, so that American companies can continue to work with Huawei. According to IDC, while other vendors saw decline, Huawei's global phone shipment increased 16.8% year-on-year worldwide for 2019, mainly due to a growth of 33.9% year-on-year in China. On 18 November 2019, Huawei received another reprieve of the ban from Trump's administration, so the ban is now set to take effect after 16 February 2020. At the same time, Huawei is continuing to seek others sources for U.S. imported key components to mitigate risk of component shortage due to the entity list.

Additionally, the trade war has also hit India's economy. On 5 June 2019, the United States ended duty-free access for about US$5.7 billion worth of Indian exports under its Generalized System of Preferences (GSP) program, including chemicals, plastics, leather and rubber goods, and auto parts. India responded with higher retaliatory tariffs on 28 US products, including almonds, apples and walnuts. The Indian Rupee then fell down to 71.26 against the US dollar on 6 August 2019. According the estimation by India Kotak Mahindra Bank, the USD/INR exchange rate is expected to further depreciate to 72.5 in 2020. So far U.S. and India have come close to a deal like the phase one agreement between US and China but not been able to seal it. The Group will continue monitoring the impact and devise counter measures if necessary.

Reliance on Key Customers

The Group's five largest customers account for 90.02% of the Group's total revenue. The Group has strong established relationships with these major customers and it is a big challenge to maintain bargaining power with these 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 and general economy may deteriorate, the Group will keep monitoring credit position of customers and assess default risks. HMD started Series B funding round during the first half of 2019. This is the third funding round for HMD after seeding round in start-up phase, and Series A that was closed in the second quarter of 2018. Main purpose of Series B round is to collect funding to deliver growth plan, strengthen the balance sheet and expand the investor base. HMD is striving to close the Series B funding round in the first half of 2020 to reach a more healthy cash flow position. The Group's finance team will continue to monitor closely cash position and credit status of HMD. Regarding the U.S. Government's blacklisting, export controls and bans against one of the Group's major customers, as things keep changing, the Group will continue to monitor and assess the impact and take necessary steps to mitigate the risks and the Group will dedicate resources to serve all customers and foster long term business relationship. The core business of one key customer is not in mobile phone sector and any change to the business strategy of this customer may affect our sales to this customer.

Reliance on Key Suppliers

Please refer to section "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and how to mitigate such risk. The risk of shortage due to excessive concentration of purchasing sources remains low.

Foreign Exchange Risks

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

2019 Novel Coronavirus (COVID-19) Outbreak

Based on the information from CDC (Centers for Disease Control and Prevention), a novel coronavirus (COVID-19) is a new coronavirus that has not been previously identified and COVID-19 is a new virus that causes the outbreak of respiratory illness which was firstly identified on 8 December 2019 in Wuhan, Hubei Province, China. With the rapid increasing number of confirmed cases, the WHO (World Health Organization) has declared the outbreak of COVID-19 a global public-health emergency and further heightened the global response to this outbreak.

In order to block the possible spread of COVID-19, The General Office of the State Council of China announced the extension of Chinese New Year Holiday to 2 February 2020, which was originally to end on 30 January 2020 yet, most local governments took conservative measures to further extend the reopen of the factories to 10 February 2020. With all the effort to guarantee a safe working environment for the Group's employees and in compliance with local government's disease control policy, the Group has decided to extend the Chinese New Year Holiday and temporary closed its factories in China and follows the local governments guidelines for the reopening.

In the meantime, the Group cannot meaningfully estimate the economic impact of COVID-19 as there are enormous number of uncertainties and the ripple effects are already happening in not only supply side but also the demand side. The decrease in working days from 12 weeks to 11 weeks and the other 2 weeks quarantine period for the employees who were returned from other provinces inevitably create the stress on the Group's manufacturing capacity among the factories in China and the same situation is happening to the entire supply chain and impacting suppliers' cash flow, which could reverberate longer than the immediate crisis. On the demand side, according to Bloomberg article published on 4 February 2020, the spending during the Chinese New Year Holiday week was topped US$143 billion last year, as the outbreak happened during the holiday week this year, it undisputedly stopped all the retail activities as most shops were shut down for safety reasons and consumers were forced to stay home. For smart phone segment, Counterpoint Research estimated the global market will ship -2% fewer smart phones than expected in 2020, due to the fear and"paralysis"caused by the virus and China market will take the biggest impact with a 5% smart phone shipments decline. Furthermore, the world's largest exhibition for the mobile industry and upcoming flagships introductions among the mobile companies, MWC Barcelona 2020 event was cancelled by the GSMA on 12 February 2020 with due regard to the safe and healthy environment in Barcelona. On 11 March 2020, WHO officially declared COVID-19 a "Pandemic", which has spread to 119 more countries apart from China. Some of the top 10 infected countries are the ones have significant economic and technical influence such as China, U.S., U.K., Japan and South Korea. According to Bloomberg's report published on 6 March 2020, in the worst case scenario, the economic fallout could include recessions in the U.S., Euro-area and Japan, the slowest growth on record in China, and a total of US$2.7 trillion in lost output — equivalent to the entire GDP of the U.K. To limit the virus spread, so far more than 70 governments have banned entry to travelers who have been to affected regions, and many high tech companies in Europe and North America including Google, Apple and Amazon had moved to "work from home" in face rising COVID-19.

The Group has been closely monitoring the current public health challenge linked to COVID-19 and applying all recommended health and hygiene practices and following local government's health safeguards to combat coronavirus to all aspects of our operations in the affected markets. The Company will keep COVID-19 impact under review and introduce measures to mitigate the impact.

Cyber Risk Controls

Regarding cyber risk, the Group has in place an information/cyber 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 strictly so that the cyber security risks can be managed and controlled across the organisation (particular for the network control) and make sure machine and system operate well and avoid any information leakage. 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.

The outbreak of COVID-19 in Mainland China and the subsequent quarantine measures imposed by the Mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had some negative impacts on the operations of the Group, as a lot of the Group's operations are located in Shenzhen, Langfang and Guiyang in Mainland China. The Group had to postpone its manufacturing since the end of the Chinese New Year Holiday in late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group had re-opened all of its factories in Mainland China stage by stage since 10 February 2020, but they are still not operating at normal capacity due to self-quarantine procedure, logistics, and travel restrictions. In light of the reduction in scale of the Group's manufacturing activities after the reporting period, the Group has had to re-arrange the shipment without violating any customer contract terms. In addition, as the operations of some of the Group's customers, suppliers, associates, joint ventures and investees are located in Mainland China, the outbreak of COVID-19 is expected to have a negative impact on these parties. Because of the quickly-evolving nature of COVID-19's spread and evolution, the Company considers it is too early and difficult to predict with any precision what impact that outbreak might have on the Group's performance for the six months ending 30 June 2020. The challenging conditions that the Group has faced since late 2017 have continued into 2020. The Group's gross margins generally have also continued to come under pressure from competition. However, the Company has been working hard and doing everything that it reasonably can to maximise its performance through these challenging times. The Company will keep matters under close review as the first quarter of 2020 progresses, and will make further announcements, as necessary, to keep shareholders and potential investors informed.

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 currently expected to be in or about May 2020) certain unaudited consolidated financial information of the Group for the three months ending 31 March 2020, 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 ecosystem and macro-economic environment (e.g. intensifying trade wars and political conditions) and industry generally and related changes in consumer demand, price wars, seasonality of sales, decline in the first quarter of 2020 of shipment and contribution margin due to the Chinese New Year Holiday and COVID-19, factors relating to the supply chain (e.g. component costs, sourcing and shortage and inflationary rate) and to inventory (e.g. accumulated inventory may take time to clear and may have to be written-off), 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' demand and preferences and propensity to spend (e.g. in-house manufacturing instead of outsourcing), changes in money markets (e.g. fluctuation of interest rates and foreign exchange rates) and capital markets, sales and product mix changes, commodity price changes, technology advancement, and market/legal/regulatory/tax/fiscal and monetary/government policy/tariff changes (e.g. changes of custom duty rates, government's blacklisting, export controls and bans against the Group's major customer). 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 of the Company 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 Monday, 18 May 2020 to Friday, 22 May 2020, 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 Shops 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 Friday, 15 May 2020.

CORPORATE GOVERNANCE

The Company has applied and complied with all the code provisions set out in the CG Code during the current period.

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, and that the status quo should be maintained when the Group has been facing challenging conditions, particularly when the Group has made consolidated net loss on an annual basis since 2017. 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 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.

In light of the above and other measures taken (including arrangements relating to delegation by the Board of certain authority as detailed in the "Other Information — Corporate Governance" section of the Company's 2018 interim report as issued and published on 19 September 2018), the Board believes that there have been adequate checks and balances at both the Board level and the Company's senior management level, and there has been sufficiently close supervision over the key operational matters of the Group, notwithstanding that the Company has not been able to comply with the code provision contained in Paragraph A.2.1 of the CG Code during the current period. The Board therefore considers that the circumstances justify the adoption of the arrangement for the chief executive officer to serve also as the acting chairman, and considers that this arrangement is currently in the best interests 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 endeavour to find a suitable candidate to assume the duties as the chairman of the Company at the right and appropriate time, thereby separating the roles of the 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. 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 the SFO respectively and also setting out certain guidelines for the implementation of corporate governance measures of the Company.

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 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 10 April 2019) duly approved by the Company's shareholders at the Company's annual general meeting held on 17 May 2019, the Company bought back in multiple batches a total of 11,074,906 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK$15,563,766.18. Among these shares so bought back, 2,667,000 shares were cancelled on 11 December 2019, whereas the remaining 8,407,906 shares were cancelled on 7 January 2020, in both cases in accordance with the Articles. For details relating to the Buy-back Mandate, please refer to the explanatory statement of the Buy-back Mandate set out in Appendix I to the Company's circular dated 10 April 2019.

The above share buy-backs are summarised as follows:

Date of buy-back	No. of Shares bought back	Price per Share Highest HK$	Price per Share Lowest HK$	Aggregate consideration paid (before expenses) HK$
25 November 2019	367,000	1.22	1.22	447,740.00
26 November 2019	300,000	1.24	1.24	372,000.00
27 November 2019	500,000	1.27	1.27	635,000.00
28 November 2019	500,000	1.28	1.28	640,000.00
29 November 2019	500,000	1.28	1.28	640,000.00
3 December 2019	500,000	1.33	1.33	665,000.00
9 December 2019	1,300,000	1.39	1.35	1,784,000.00
11 December 2019	500,000	1.38	1.38	690,000.00
12 December 2019	1,500,000	1.40	1.38	2,080,000.00
17 December 2019	1,031,000	1.45	1.44	1,486,640.00
19 December 2019	26,000	1.50	1.50	39,000.00
20 December 2019	1,500,000	1.51	1.48	2,245,000.00
27 December 2019	1,075,000	1.50	1.48	1,606,000.00
31 December 2019	1,475,906	1.53	1.50	2,233,386.18
	11,074,906			15,563,766.18

For details about each of the above share buy-backs and share cancellations, please refer to the next day disclosure returns and monthly returns as issued and published from 25 November 2019 to 3 February 2020 (both dates inclusive).

The Board believes that the value of the Company's shares traded on-market was undervalued, and the above share buy-backs in the then conditions would effectively alleviate the extra burden of the Share Scheme and the Share Option Scheme on the Company's financial results. Accordingly, the Board is of the view that the above share buy-backs is in the interests of the Company and its shareholders as a whole.

Save for the aforesaid, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the current period.

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 auditor 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 2019 and the annual report 2019 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 2019 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 ended 31 December 2019. 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 2019 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, 22 May 2020 at 10:00 a.m. or, where the context so admits, any adjournment thereof
"Articles"	the amended and restated articles of association of the Company
"associate(s)"	having the meaning as defined in the Listing Rules
"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
"current period" or "reporting period"	the year ended 31 December 2019
"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)
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong

"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$0.04 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Option Scheme"	the share option scheme of the Company adopted by the Board on 17 October 2013 and by the Shareholders on 26 November 2013, as amended from time to time in accordance with the terms contained therein. The share option scheme will be valid and effective for a period of 10 years until (inclusive of) 25 November 2023
"Share Scheme"	the share scheme of the Company adopted by the Board on 17 October 2013 and by the Shareholders on 26 November 2013, as amended from time to time in accordance with the terms contained therein. The share scheme will be valid and effective for a period of 10 years until (inclusive of) 25 November 2023
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S."	the United States of America
"US$" or "USD"	United States dollars, the lawful currency of the U.S.

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 27 March 2020

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.