FIH® 富智康™

FIH Mobile Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

2020 ANNUAL REPORT

Contents

This annual report is printed on environmentally friendly paper

CORPORATE INFORMATION

FIH MOBILE LIMITED (THE "COMPANY", AND TOGETHER WITH ITS SUBSIDIARIES, THE "GROUP")
(References to "we", "our" and "us" are references to "the Company" or "the Company's" (as the case may be).)

EXECUTIVE DIRECTORS

CHIH Yu Yang *(Acting Chairman and Chief Executive Officer)*
KUO Wen-Yi
MENG Hsiao-Yi

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih

COMPANY SECRETARY

WONG Kin Yan, Vanessa

REGISTERED OFFICE

P. O. Box 31119 Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

HEAD OFFICE

No.4 Minsheng Street
Tucheng District
New Taipei City 236
Taiwan

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Peninsula Tower
538 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

LEGAL ADVISORS

Clifford Chance, Hong Kong
Freshfields Bruckhaus Deringer, Hong Kong
Mayer Brown, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of Beijing
Bank of China
Bank of Communications
China Guangfa Bank
China Merchants Bank
Chinatrust Commercial Bank
Citibank
DBS Bank
Deutsche Bank
Industrial Bank
ING Bank
Mizuho Corporate Bank
OCBC Bank
Santander Bank
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
Taipei Fubon Bank
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P. O. Box 1586
Gardenia Court
Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

STOCK CODE

2038

CHAIRMAN'S STATEMENT

Dear Shareholders,

2020 has been an unprecedented period brought on by a confluence of a wide range of factors including a major pandemic with significant consequences, continued escalation of the global trade tensions, and accelerating shifts in the industry and supply chain dynamics, coupled with sustained pressure from existing challenges of industry consolidation trends and increased competition. The onset of COVID-19 resulted in a supply-side impact as the Group has faced temporary closures of its production facilities as part of national measures taken by respective governments where the Group's major production facilities exist, initially in the People's Republic of China ("China", "PRC" or "Mainland China") and later on in India, as well as a wave of lockdowns in East and South-East Asia where various components are sourced leading to sustained supply interruption. Further compounding the impact of COVID-19 was the shift of supply-side interruption and its culmination into a significant reduction in demand as the pandemic further spread globally with lockdowns being instituted across major markets, devastating economies, stunting global consumption, and leading to economic recession and a volatile global macro-economic environment. The wide range of challenges faced, the investments made by the Group to ensure the safety and health of its employees, and the increased cost of operation as a result of these difficulties on the Group's main customers have collectively led to a significant reduction of the Group's revenue and overall P&L performance.

Although the smartphone market was expected to grow after lackluster performance as a result of increased demand in India and faster adoption of 5G in China, the impact of COVID-19 has led to a significant decline of smartphone shipments in 2020. Concurrently, the lockdowns and restrictions instituted globally have led to a large shift to work from home, resulting in a notable demand spike for servers, PCs, and TVs. This has had the consequence of supply constraint and tighter supplies. This shift in demand has been accompanied by changing dynamics across the mobile industry, especially in China, where restrictions by the U.S. have significantly disrupted the mobile industry and supply chain, impairing one of the Group's key customers' ability to acquire and utilise globally-used softwares and apps, and fabricate advanced chipsets. Concurrently, this has left a void that other companies are aiming to occupy and to this regard and with the Group's sustained support, another key customer of the Group expanded its overseas business, including in India and CEE and Middle East and Africa, curbing the adverse impact of the aforementioned customer. This global disruption is expected to create a gap for a Chinese smartphone brand. The Group will continue to harness and leverage its global and diversified capacity and supply chain to support these customers.

The impact of restrictions on certain leading smartphone brands and recalibration in Mainland China's smartphone market will require the Group to incur costs as the Group undertakes a restructuring to proactively adjust to changing global dynamics and expand production capacity globally to satisfy this demand. A key focus of the Group's recalibration will be upgrading and expanding production facilities and technical capabilities in India, including those on the Group's core competencies in casing and tooling.

It is the Company's strategy to become an asset-light and lean corporate group and the Group has generally suspended capital expenditure on non-critical investments and disposed of obsolete and under-utilised assets. There is a continuous need to maximise capacity utilisation and reduce redundant assets. The Group has continued its strategy to divest from non-productive assets, and concentrate and aggregate capital into the productive assets of the Group. Although the Group's recalibration of global facilities and realignment of resources into productive assets will incur expenses in 2021, it is aimed at ensuring the Group's prominence and will be fundamental for the Group's ability to maintain its competitive advantage across its core competency and innovate across new segments amidst a rapidly changing global and industry dynamics in the new decade.

CHAIRMAN'S STATEMENT

Revenue for the year 2020 was US$8,935 million, which represents a decrease of US$5,444 million or 37.9% when compared with 2019 revenue of US$14,379 million. Loss for the year 2020 attributable to owners of the Company increased to US$173.9 million, compared to the loss for 2019 of US$12.3 million. Basic loss per share for the year 2020 was US2.13 cents.

The Group's financial resources including cash reserves, cash flow and liquidity positions have supported the Group's operations across the range of challenges. To maintain the Group's financial resources and bolster the Group's ability to effectively respond to the significant changes in market demand, consumer-buying behaviour resulting from COVID-19 and rapidly changing global and industry dynamics, the Group will continue to focus on measures to control overall costs and operating expenses, to seek to ease pressure on margin erosion, while simultaneously working closely with the Group's partners to fill their demand at a reasonable cost amidst fierce market competition.

The global landscape has continued to show significant changes and COVID-19 has accelerated the speed at which these changes continue to take place. The development and approval of various vaccines globally is a welcome sign towards normalisation and recovery from the devastating impact of COVID-19. Additional challenges will remain with the uncertainty of the policies of the new administration in the U.S. and its potential impact on global trade, continued containment measures taken by governments across the world, fluctuating supply of key components, gross margin erosion pressure, speed of COVID-19 vaccine rollout which can impact recovery and growth of consumption, and growth of 5G handset market. In this regard, the Group will strive and work diligently to achieve its goals to develop and further segment its productive assets, discard non-productive assets, expand capacity in markets that will be drivers of growth, while continuing to harness its R&D investments and capacity to innovate in other categories of consumer electronics in IoT, 5G, IoV (Internet of Vehicles), and healthcare.

I would like to sincerely thank and appreciate the Group's entire staff for their sustained efforts in coping with and adjusting to the unprecedented difficulties that were faced in 2020 and for their continued endeavours to sustained teamwork and collaborative efforts to respond to the challenges of COVID-19 and the volatile global environment. Moreover, I would like to offer my thanks to the staff and their commitment to the Group's strategies going forward when global recovery from COVID-19 and rapid changes take place in the industry and globally. I would also like to extend my appreciation to the support provided by all staff, customers, shareholders, business partners and the board of directors to the management team in the past year. We aim to continue to execute well and strive to make continuous improvements in the years to come.

With best regards,

CHIH Yu Yang
Acting Chairman

26 March 2021

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

CHIH Yu Yang (Mr.), Chinese (Taiwan) and aged 62, was appointed as the Acting Chairman of the Company effective 1 January 2017. He joined the Company as an executive director in August 2009. He is also the chief executive officer and the chairman of the corporate governance committee respectively of the Company. Mr. Chih has been appointed as a director of 富佳生技股份有限公司 (iCare Diagnostics International Co. Ltd. for identification purposes) (a start-up company which is engaged in digital health care and invests in diagnostics facilities) with effect from 26 September 2020. Mr. Chih is the chairman of the board of directors of Chiun Mai Communication Systems, Inc. ("CMCS"), a subsidiary of the Company in Taiwan which is the primary mobile handset design services arm of the Group. Mr. Chih joined the Group in 2005 when the Group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. Mr. Chih is the chairman of the board of directors of FIH Co., Ltd. and Evenwell Digitech Inc., both being subsidiaries of the Company. He is also a director of certain other subsidiaries of the Company, namely Executar International Limited and Transluck Holding Limited (formerly known as Transworld Holdings Limited) respectively. Moreover, he is a director of a subsidiary and an associate of 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only) ("Hon Hai"). He has 41 years of extensive experience in the communication industries. From 1997 to 2001, Mr. Chih was the vice president and general manager of Communication B.U. in BenQ (formerly Acer Communication and Multimedia, Inc.) where he was responsible for BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hua University in Taiwan in 1980.

Dr. KUO Wen-Yi (Mr.), Chinese American and aged 55, was appointed as an executive director of the Company on 29 June 2018. He is also a member of the corporate governance committee of the Company. Dr. Kuo joined the Group in December 2014 and is currently the vice president of the Group. He is also a director of ICI Cayman Limited and a supervisor of 深圳市富宏訊科技有限公司 (Shenzhen Fu Hong Xun Technology Co., Ltd. for identification purposes only) respectively, both being subsidiaries of the Company. Dr. Kuo has more than 26 years of extensive experiences in wireless communication product research and development, international business development, start-up business and corporate management. Before joining the Company in December 2014, Dr. Kuo was the founder and the chief executive officer of BandRich Inc. ("BandRich") from March 2006 to December 2014. The core businesses of BandRich were product development and sales of 3.5G (also known as High Speed Downlink Packet Access (HSDPA)) and 4G LTE (the Fourth Generation of Mobile Phone Mobile Communication Technology Standards Long-Term Evolution) wireless routers and communication modules for home, vehicle and outdoor applications. BandRich partnered with the world's dominant wireless infrastructure suppliers Ericsson and Alcatel-Lucent and sold products to worldwide operators. From April 2003 to February 2006, Dr. Kuo was the senior director (department head) of Compal Electronics Inc. (a listed company in Taiwan) and was in charge of the business in 3G (the Third Generation of wireless Mobile Telecommunications Technology) mobile phone. From May 2000 to July 2002, Dr. Kuo was the co-founder and the chief technology officer of Wiscom Technologies ("Wiscom") in New Jersey, U.S. Wiscom was focusing on development of 3G mobile phone baseband chip. Wiscom's intellectual property rights were later acquired by Intel Corporation. From April 1999 to May 2000, Dr. Kuo was the principal technical staff member of AT&T Labs, engaged in 3G WCDMA (Wideband Code Division Multiple Access) system researches. From January 1995 to April 1999, Dr. Kuo worked in Bell Laboratories of Lucent Technologies on CDMA (Code Division Multiple Access) and WCDMA research and development on network infrastructures. Dr. Kuo is the inventor of 38 U.S. wireless communications patents. He received the IEEE (Institute of Electrical and Electronics Engineers) Leonard G. Abraham Prize in 2001. He was an adjunct professor at New Jersey Institute of Technology in 1998. Dr. Kuo received a Bachelor Degree of Science in Communications Engineering from National Chiao Tung University, Taiwan in 1987, a Master Degree of Science in Electrical Engineering from National Taiwan University in 1989, and a Doctoral Degree of Philosophy in Electrical Engineering from Purdue University, U.S. in 1994.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

MENG Hsiao-Yi (Mr.), Chinese (Taiwan) and aged 56, was appointed as an executive director of the Company on 30 October 2020. Since 1 October 2020, he has been the chief operating officer of the Company who is principally responsible for the management of the Group's factory operations as well as resources integration and optimisation. Since Mr. Meng joined the Hon Hai Technology Group (comprising Hon Hai, its subsidiaries and/or associates) in January 1991, he has held a number of key positions in the connector and mobile phone business, including managerial roles such as (among others) senior supply chain manager, senior procurement manager, director of marketing management and business unit deputy general manager. He is also a director of certain subsidiaries of the Company, namely FIH Precision Electronics (Lang Fang) Co., Ltd., FIH (Tian Jin) Precision Industry Co., Ltd. and 富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd. for identification purposes only) respectively. He has gained almost 30 years of extensive experience in factory operation management as well as resources integration and optimisation. Since 2010, Mr. Meng has been independently in-charge of business unit management operations and led and developed OEM (Original Equipment Manufacturing) business with some of the world's leading customers and overseas markets. During his tenure, he has developed and earned a high degree of trust with the Group's customers and partners, especially functioning as a pivotal strategic partner of customers in cross-region resources integration, production, efficiency enhancement, cost and inventory reduction, Industry 4.0 (the fourth industrial revolution) smart factory and other projects. Besides, the performance of the business unit led by Mr. Meng has been highly appreciated and awarded the Group's Best Business Performance for three consecutive years. In January 2019, Mr. Meng was promoted to a vice president for leading EMS (Electronics Manufacturing Services)/OEM business in the aspects of cross-region markets development and management of manufacturing operations in Beijing, Langfang and India. Mr. Meng graduated from the Taiwan Zhonghua Senior High School in 1984.

LAU Siu Ki (Mr.), Chinese (Hong Kong) and aged 62, joined the Company as an independent non-executive director in December 2004. He is the chairman of the audit committee, remuneration committee and nomination committee respectively of the Company. He has over 35 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing. Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. Mr. Lau was a member of the World Council of ACCA from 2002 to 2011 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. He serves as an independent non-executive director of Binhai Investment Company Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Samson Holding Ltd., TCL Electronics Holdings Limited (formerly known as TCL Multimedia Technology Holdings Limited) and IVD Medical Holding Limited, whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lau also serves as company secretary of Yeebo (International Holdings) Limited, Hung Fook Tong Group Holdings Limited and Expert Systems Holdings Limited (whose shares are listed on the Stock Exchange). In addition, he was an independent non-executive director of China Medical & HealthCare Group Limited from 3 June 2004 to 6 December 2018, the shares of which company are listed on the Stock Exchange.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Daniel Joseph MEHAN (Mr.), American and aged 76, joined the Company as an independent non-executive director in July 2007. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. He was the chief information officer of the Federal Aviation Administration from 1999 to 2005. Prior to that, Dr. Mehan was senior level executive who held a variety of leadership positions at AT&T for over 20 years, including international vice president and international chief information officer. Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development. Dr. Mehan received both his Ph.D. in Operations Research and Master of Science in Systems Engineering from University of Pennsylvania, U.S.

TAO Yun Chih (Mr.), Chinese (Taiwan) and aged 47, joined the Company as an independent non-executive director on 9 March 2017. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. Mr. Tao is a partner of DMC & Partners Consulting Co., which focus on providing digital transformation consulting services to traditional business owners, with effect from 1 December 2017. He has been appointed as a director of EasyCard Corporation (a company providing contactless smartcard payment system (EasyCard) service in Taiwan) with effect from 24 March 2021. He is also the consultant of XRSPACE, which is a social reality XR (Cross Reality) platform start-up, with effect from 18 February 2021, and before that, he was the president of XRSPACE during the period from 1 April 2020 to 17 February 2021. With effect from 16 June 2020, Mr. Tao was appointed as an independent director of Grand Hall Enterprise Co., Ltd. whose shares are listed on the Taipei Exchange. Before joining XRSPACE, he had served in various start-ups in telecommunications, entertainment and internet industries, including his roles as the general manager of Circles Life Taiwan (a global telecommunications start-up with headquarters in Singapore) from 13 January 2020 to 20 March 2020, the chairman of We Interactive (TW) Ltd. (a start-up focusing on providing outsourcing services to live streaming platforms) from May 2017 to November 2018, and the vice president of Next Entertainment (HK) Ltd. (a start-up focusing on providing pan-entertainment live streaming platforms) from September 2016 to April 2017. Before joining the Company, he was the general manager of LINE Taiwan as well as the director and general manager of LINE PAY Taiwan (both belonging to the South Korean internet search giant whose business is mainly associated with the development of mobile applications and internet services). He has over 20 years of experience in start-up, growth, management and consulting, and particularly deep insights in internet development, mobile application industry, emerging market evangelism, and digital trend. Mr. Tao received a Bachelor of Science degree in Physics from National Taiwan University, Taiwan in 1996 and a Master of Science degree in Environmental Engineering from National Taiwan University, Taiwan in 1998.

SENIOR MANAGEMENT

HSIUNG Nai-Pin, Paul (Mr.), Chinese (Taiwan with U.S. nationality) and aged 56, joined the Company as director of business development in January 2003. He is responsible for operations in America region including production, logistics and after-market service since 2012. Prior to that, Mr. Hsiung held various functions and positions in mobile phone industry with the Company. From 2003 to 2008, he was responsible for business development and project management in Florida, U.S. From 2009 to 2012, he was responsible for mobile phone design and development in Florida U.S., and also product manufacturing at Langfang, China. Before joining the Company, Mr. Hsiung was a director at Test Research, Inc. (a Taiwan listed company) for 8 years and responsible for international sales and marketing. Mr. Hsiung is also a director of certain subsidiaries of the Company, namely Excel Loyal International Limited, FIH Mexico Industry SA de CV, FIH (Tian Jin) Precision Industry Co., Ltd., Prospect Right Limited, S&B Industry, Inc., SP International, Inc. and Sutech Holdings Limited respectively. He obtained a Bachelor degree of Applied Physics from Tamkang University, Taiwan and a Master degree of Computer Science from New York Institute of Technology, U.S.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

TAM Kam Wah, Danny (Mr.), Chinese (Hong Kong with British nationality) and aged 57, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief financial officer of the Company. He is responsible for accounting and internal and external financial reporting, financial planning, taxation, investment management, internal control, investor relations, corporate governance, risk management and performance review of the Group. Mr. Tam has over 33 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd. (now known as China Oceanwide Holdings Limited) and he also worked as an accounting manager for Coates Brothers (HK) Co., Ltd. Mr. Tam is a fellow of the Taxation Institute of Hong Kong and an associate of Hong Kong Institute of Certified Public Accountants. He is also a certified tax adviser. Mr. Tam received a BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University, the People's Republic of China in 2005.

CHEN Hui Chung, John (Mr.), Chinese (Taiwan) and aged 59, joined the Company as senior director of finance division in August 2013. He is responsible for treasury, financial investment and financial risk management of the Group. Mr. Chen has over 31 years of experience in finance areas in Taiwan listed companies. Before joining the Company, he was the chief financial officer of Taiwan Synthetic Rubber Corp and Wan Hai Lines Ltd. respectively. Mr. Chen is also a director of a subsidiary of the Company, namely FIH Co., Ltd. He received a Bachelor of Transportation and Communication from National Cheng Kung University, Taiwan in 1983 and a MBA from University of California Irvine, U.S. in 1987.

Clement Joshua FOULGER (Mr.), Indian and aged 50, has been appointed as the Group's Country Head of India since April 2015, overseeing the respective operations of the Group's subsidiaries in India, including FIH India Developer Private Limited which is the manufacturing partner of choice that helps a diverse customer base build mobile phones and consumer electronic products. He is responsible for architecting India site's strategic direction and transformation, business development, sustainable manufacturing solutions, operating and financial performance. He also leads the manufacturing operations and growth opportunities of the Group in India, based out of Chennai, India. Under his leadership, India operation has expanded its manufacturing facilities to three locations, namely Sri City, Andhra Pradesh, India Sunguvarchatram and Sriperumbudur near Chennai, India. These world class manufacturing facilities are one of the largest in the region and the manufacturing and quality processes that have been implemented are considered by the industry to be among the best. These facilities, collectively, in a short period of time, have expanded their capabilities to manufacturing of casings, mechanics and components, PCBA (Printed Circuit Board Assembly) and final assembly of mobile devices. He has been instrumental in creating a robust electronics manufacturing ecosystem in the region and grown the business multi-fold, thanks to his relentless pursuit in collaborating with multiple stakeholders, including the local and Central Government, industry bodies, suppliers, supply chain, etc. Mr. Foulger is credited by his industry peers for putting India on the global map of smartphones and feature phones manufacturing hubs. Before joining the Company, Mr. Foulger had spent nearly two decades with Nokia Corporation where he held various positions and led America and global operations based out of the U.S., and later he was promoted as President, Nokia Special Economic Zone (SEZ), Chennai, India. He was also responsible for the launch of Nokia's manufacturing operations in India and Vietnam. Mr. Foulger is a Post Graduate in Industrial Engineering specialising in Robotics from the University of Texas, Arlington, U.S. He has over 27 years of experience in electronics manufacturing operations and supply chain management globally.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") hereby announces the annual report incorporating this report of the directors, particularly the audited consolidated results of the Group for the year ended 31 December 2020 (the "current period").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the principal subsidiaries are set out in the consolidated financial statements on pages 167 to 169. The Group is principally engaged as a vertically integrated manufacturing services provider for the handset industry worldwide. It provides a wide range of manufacturing services to its customers in connection with the production of handsets (the Group's ancillary logistics and distribution services provided to its customers in connection with the distribution of handsets have ceased with effect from 1 January 2019).

RESULTS

The results of the Group for the current period are set out in the consolidated financial statements on pages 92 and 93.

BUSINESS REVIEW

Important

The consolidated final results of the Group for the current period as set out in the annual report incorporating this report of the directors have been reviewed and audited in accordance with the relevant financial standards. The Group's results of operations in the past have fluctuated and may in the future continue to fluctuate (possibly significantly) from one period to another period. Accordingly, the Group's results of operations for any period should not be considered to be indicative of the results to be expected for any future period. In particular, as there is the Chinese New Year holiday (especially a long break in the PRC and Taiwan) in the first quarter of each year which is generally a low season post-Chinese New Year for the industry in which the Group operates, the Group's performance in the first quarter is usually not comprehensive and representative, compared with that in the other quarters.

The Company refers to its announcements of 14 May 2020, 5 June 2020, 21 July 2020, 11 November 2020, 4 December 2020 and 5 February 2021 respectively, which in turn referred to (among other things) the novel coronavirus (COVID-19) outbreak and other challenging conditions that the Group has been facing, together with their adverse impacts on the Group and its operations, as well as the various factors attributable to the Group's consolidated net loss for the current period. In this respect, please also refer to "2021 Outlook" below.

The annual report incorporating this report of the directors contains forward-looking statements regarding the Company's expectations and outlook on the Group's order book, business operations, opportunities and prospects. Such forward-looking statements are subject to risks and uncertainties and do not constitute guarantees of the future performance of the Group and are subject to factors that could cause the Group's actual results and order book to differ (possibly materially) from those expressed in the forward-looking statements. These factors may include, but may not be limited to, anticipated and potential adverse impacts resulting from the COVID-19 pandemic, the scope and duration of the COVID-19 outbreak and its impact on our sites, customers, supply chain and operations, the anticipated impact of COVID-19-related government relief measures, and our intention to apply for, and the anticipated receipt of COVID-19-related government relief packages, changes in general industry and macro-economic environment (such as intensifying tensions and political conditions), 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, customer outsourcing, competitive challenges affecting our customers, managing fluctuations in customer demand and other related customer challenges that may occur, seasonality of sales, shifting of end-user preferences and higher revenue volatility, changes in sales and product mix and asset utilisation, changes in

commodity price, shortage of components (like chipsets and displays), and materials constraints and prolonged delivery lead time and rises in prices, our growth and diversification strategies and plans (and potential hindrances thereto), our credit risk, risks associated with international sales and operations, pace of technology advancement, and changes in market/legal/regulatory/government/tax policy (e.g. government's blacklisting, export controls and bans against the Group's major customer), the potential adverse impacts of events outside of our control, including (among others) Britain's departure from the European Union (Brexit). 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 impacts of such risk factors on the Group's business. For more details, please see "Outlook" (particularly "2021 Outlook") below. 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

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

Discussion and Analysis

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, 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 tailored to meet specific market and customer product lifecycle requirements 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., 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. Within design and development, the Group provides customers with a broad spectrum of OEM (Original Equipment Manufacturing) and ODM (Original Design Manufacturing) capabilities and our strength lies in delivering manufacturing solutions of high complexity that require strong engineering and technical proficiency. The Group's ODM offering includes developing hardware and software platforms and design solutions in collaboration with customers, as well as management of the program's design and aspects of the supply chain and manufacturing. The Group operates a network of sites and centers of excellence strategically located in China, India, Vietnam, Taiwan, Mexico and America.

Handset manufacturing industry is highly dynamic and competitive and it is difficult to predict order book and aggressive pricing is a common business dynamic. Customers may shift production between EMS (Electronic Manufacturing Services) providers for a number of reasons, including changes in competition landscape and demand for their products, pricing concessions, more favorable payment terms and conditions, outsourcing strategies and their preference to consolidate their supply chain capacity or rotating their supply chain partners, quality of engineering and product development services, on-time delivery and tax benefits. Customers may also change the amount of business they outsource in order to integrate vertically and consolidate through the value chain or increase specialisation through further contracting, or the concentration or location of their EMS suppliers. As a result, customer and segment revenue and mix, as well as overall earnings, may fluctuate.

REPORT OF THE DIRECTORS

Regarding global consumer electronics industry, according to the latest research from Statista, the sales of consumer electronics are expected to reach US$384,016 million in 2020, with an annual growth rate of 4.9% from 2020 to 2025, and the market scale is expected to reach US$487,191 million by 2025. Innovative products, falling prices and rising consumer sentiment have supported demand for consumer electronics. However, many industry products have approached market saturation, leading to price competition and shrinking profit margins throughout the industry. Meanwhile, consumers have been spending much of their disposable income on mobile devices, further forcing industry operators to lower prices to gain competitive edge. In the consumer electronics industry underlining fierce competition, innovation is a double-edged sword. It can help boost industry revenue, while the incompatibility between products can lead to intensified competition and overall price decline. Therefore, innovation can only bring moderate growth to this fast-growing industry. In 2019, consumer electronics market, especially the smartphone market, experienced a declined replacement rate due to insufficient innovation and the gradual saturation of the market, which resulted in a slump in overall mobile phone shipments and the consumer electronics shipments. In 2020, because of outbreak of COVID-19, global handset shipment continuously declined.

As business spans multiple end markets, the Group strives to provide its customers on a global basis with not only product development and manufacturing support and solutions, but also vertical integration and 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 that can allow them to successfully navigate through difficult economic times such as the current COVID-19 pandemic. Uncertainty in the global economy and financial markets may impact current and future demand for the Group's customers' products and services, and consequently, our operations. The Group continues to monitor the dynamics and impacts of the global economic and financial environment and work to manage our priorities, costs and resources to anticipate and prepare for any changes we deem necessary. To ensure that the Group has been prepared for an uncertain demand environment, it has aggressively eliminated the obsolete, redundant and surplus assets to become an asset-light corporate group and cut costs to maintain and preserve cash. With the capabilities and competencies and know-how in working with a wide range of materials and craftsmanship and provide manufacturing solutions ranging from traditional metal stamping and plastic injection to system assembly solutions, the Group is able to fulfill its customers' changing and diverse needs and product design requirements and offer comprehensive and competitive one-stop-shopping solutions to its customers.

After the U.S. government took steps to restrict the availability of certain U.S. technologies and materials to specific Mainland Chinese companies, and (among others) the ban on Mainland China's largest chipmaker, to the Company's knowledge, none of the manufacturers of 5G chips for mobile phones using U.S. technologies have been granted a licence to continue conducting business with the Mainland Chinese company in question. This has resulted in tighter supplies, and even shortages, in a wide range of common electronic components starting from the third quarter of 2020, even with the possibility to last until the mid 2021, thereby increasing pressure on the supply chain during a typically peak season of demand in the year. Some common electronic components such as ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. appear to be subject to tighter supplies, with rising prices and extended order lead times. In addition, Mainland China's smart phone market appears to be undergoing a process of recalibration because of the U.S. sanctions against one of the key players in the market, which, in turn, has caused more uncertainties in planning, production and logistics.

As always, even with the continuing rightsizing/restructuring of the underperforming parts of the Group's manufacturing operations, the Group will continue to provide casing and system assembly of consumer electronic products to its customers. Moreover, the Group plays an active role in Hon Hai vertical integration and is part of MIH Open Platform Alliance ecosystem. On the other hand, the Group has been engaged in 5G, IoV (Internet of Vehicles) and AI (Artificial Intelligence) for building up the Internet and the mobile ecosystem, actively expanding the Group's participation in the relevant product and service segments of the 5G, IoV and AI businesses through the utilisation of the Group's expertise and experience in providing its innovative software design and hardware development services as well as wireless communication and information exchange technologies in support of the development of such business segments together with ancillary networks and ecosystem. Please also see "Investments" below for the Group's current investments and investment strategies in respect of such business segments. In particular, as to the IoV business segment, the Group made significant R&D (Research and Development) achievements and acquired several patents in Automotive HMI (Human Machine Interface), ADAS (Advanced Driver Assistance Systems), communication technology and cloud service areas since the establishment of IoV business units in 2019. Specifically, the Group has developed a competitive ADAS solution with L2+ features, including HWA (Highway Assist) and TJA (Traffic Jam Assist) and the solution has been validated by considerable amount of public roads testing. In addition, for meeting the individual needs of drivers and passengers, the Group has also developed a network connected smart cockpit solution equipped with smart antenna, voice assistant, mobile apps, DMS (Driver Monitoring System), cloud services, seamless User Interface software platform and multi-screen interactive technology. The Group has been closely working with the top OEM, 1st or 2nd tier suppliers across Asia and Europe, and received several quotations already, and it is expected that ADAS solution, smart cockpit solution and multi-functional IVI (In-Vehicle Infotainment) system will be a promising business driver for the Group in the near future. At this stage, as the business environment of 5G, IoV and AI business segments is currently and expected to be dynamic and competitive on an on-going basis, the Group considers it is currently too early to predict with certainty their potential impacts to its overall performance as well as the prospects for the engagement in such business segments.

Key Relationships with Customers, Suppliers and Employees

Key Relationships with Customers

As the outbreak of COVID-19 took place since the beginning of 2020, it has had profound impact across different regions of the world in which the Group has operations. Adverse COVID-19 related demand impacts on the handset industry moderated in third quarter 2020 compared to second quarter 2020, resulting in a gradual recovery of demand across our customer base. The biggest smart phone market, China, faced a 20.98% year-on-year shipment decline in 2020 according to China Academy of Information and Communications Technology (CAICT) report published on 11 January 2021. April was the only month with a positive year-on-year shipment growth in the entire 2020 even with the strong 5G mobile phones sales according to CAICT data. Similarly, the second largest mobile phone market, India, was faced with plummeting demand stemming from nationwide lockdowns in the second quarter with a shipment decline of 50%. However, according to IDC, India smartphone shipments exhibited a rapid 16.5% rise in the third quarter due to the intense Diwali Festival sales promotion in the entry level smart phones. In accordance with Unicommerce, India's largest e-commerce focused SaaS platform, the festive season e-commerce reported 56% growth in order volume as compared to the festive season last year, leading to 50% YoY growth in GMV. Moreover, lockdowns and restrictions rendered an urgent need for devices supporting activities such as entertainment, work from home, and remote learning, resulting in more devices per household, and leading to a resurgence in demand for consumer devices including smartphones, consumer notebooks, and tablets in 2020. In the fourth quarter, IDC reported the smartphone shipments was 45 million, with an outstanding 21% YoY growth yet still concluded the year with a 2% year-over-year decline and stopped the several years of shipments growth. The consecutive quarterly growth represents considerable spending and recovery in Indian market.

Major Customers and Service Offerings

The Group's major customers include top international brands and Chinese brands. Despite the initial focus of Chinese customers in their domestic market, capital, technical and know-how advances has shifted focus to global expansion. As a result, Chinese brands have become extremely successful in different countries and markets, and their expansion outside the Chinese market contributes to mitigating the Group's risk. While the COVID-19 pandemic has had an impact on various industries and economies across the globe, all of the Group's customers were impacted to a certain extent. The Group's strategy of establishing and maintaining long-term relationships with leading companies with size and growth characteristics, continuous development, penetration of Chinese and international brand customers, efforts to grow and diversify its lineup, and expand its production capacity in India and Vietnam in previous years have resulted in lowered costs in these countries. The Group believes that maintaining a global footprint is vital to reduce obsolescence risk and maximise cost competitiveness whilst simultaneously retaining the capacity to supply products and services around the world at comparable quality, reducing the impact from trade disputes and improving overall production efficiency. This expansion and customer and product diversification and vertical integration strategy will continue with larger expansion predicted in India with huge domestic market in coming years. In addition, the Group's focus on expanding its customer portfolio identifying and developing relationships with new customers that meet the Group's targeted profile, which includes good market growth potential, the need for manufacturing solutions on a global basis, financial stability and long-term relationship stability can reduce concentration risks.

China's number 1 mobile phone brand is one of the Group's key customers who provides a material contribution to the Group's revenue, became a target in the United States of America (U.S.) and China's trade tension that has escalated steadily over recent years. This customer was labelled national security threats by a presidential executive order as result of various U.S. sanctions put in place, an essential package of software and apps are prohibited from being installed in new models due to the pressure from the U.S. government. This customer's latest phone models have landed well in China and the customer remains firmly in control of its domestic market but the performance elsewhere is worse than expected despite investment and focus on its own Android open-source interface, App Gallery and suite of mobile services. On 15 May 2020, the Bureau of Industry and Security (BIS) announced plans to protect U.S. national security and issued the amended longstanding foreign-produced direct product rule and the Entity List to narrowly and strategically target this customer's acquisition of semiconductors that are the direct product of certain U.S. software and technology companies, or produced by using intellectual property and equipment of U.S. companies. This restriction damages this customer's phone business in every aspect, neither to design and manufacturing their own application processor nor to purchase standard products off the shelf, this customer can only rely on its limited inventory to keep its visibility in the market. According to the latest preliminary data issued by IDC on 27 January 2021, this customer's 2020 fourth quarter worldwide shipments dropped drastically with a 42.4% year-over-year decline and moved to number 5 position as it continues to suffer under U.S. sanctions. In fact, back in November 2020, this customer had made the decision to officially divest from its sub-brand smartphone business to a consortium of partners and government-backed businesses. The new established company recently announced its first smartphone and its CEO said during an interview with South China Post confirmed it is no longer bound by any restriction from U.S. government and partners with major chip makers and there is no reason for the company not to partner with Google. Based on the previous profound relationship with this particular company, the Group has been actively engaged in the discussion how to endeavor a new journey together. The new company might even embark on an ambitious overseas foray if it can get a reprieve from U.S. sanctions. Many mobile phone component suppliers and manufacturers are striving to cooperate with the new company. The president of a global chip design company publicly expressed "we are very eager with the opportunity to partner and work with the company."

With the Group's strong support in overseas market, another key Chinese customer successfully grew its shipment in overseas market including India, Europe and other countries, that offset the adverse impacts on such key customer arising from the aforementioned competitor's refocus on the Chinese market. In 2020, this customer is seeking to further strengthen its presence in these overseas market countries to fill the gap of a Chinese competitor and grow its smart phone business in regions apart from its home country, China. However, recent geopolitical tensions between India and China have brought a backlash against this customer; yet this will not impact on the business greatly according to its India managing director. As mentioned above, the relaxation of government-imposed lockdowns and restrictions has allowed this customer to regain its momentum in the Indian and European markets. Despite of this, the global component shortage took place in the last quarter of 2020 developing from the imbalance of supply caused by the U.S. sanction on a Chinese chip manufacturer and the unpredicted demand of various work from home related electronic products such as servers, laptops, tablets, etc. has had unfavorable impact on this customer's India performance in the last quarter this year. Frankly, even with the component shortages, this customer was the best performer in 2020 with a jaw dropping year-over-year shipments increase of 17.6%, in fact, this customer was the only company in the global top 5 smartphone companies list had more than double digits growth in shipments in 2020.

Another of the Group's customer, HMD global Oy ("HMD"), headquartered in Espoo, Finland, is the home of Nokia phones and sales to HMD are grouped under Europe segment. As manufacturer of Nokia-branded smartphones, feature phones and accessories, HMD's mission is to produce the best possible technology across various price segments, without compromises on quality and service. 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. Because of the outbreak of COVID-19, HMD suppliers in China were impacted earlier, reducing the device supply during the first half of 2020. Like other market players, the demand of HMD dropped, especially in retail business, because of restrictions in major countries (where distributors and retailers are located) due to the epidemic with which many countries struggled. In addition, some countries (like Pakistan, Bangladesh, Tunisia, Vietnam, Indonesia, Saudi Arabia, Djibouti) exhibited payments constraints and difficulties due to the prolonged impact of COVID-19 as business stalled. The demand started recovering during the second quarter of 2020 and slowly picked up as some countries relaxed the restrictions allowing the market to reopen. Hence, HMD took immediate action to mitigate the issues which resulted in a recovery despite industry-wide supply shortages. HMD introduced e-commerce platforms in the U.K. and U.S. to further transition into an online commerce model. With that, field force agencies in India (a key market for HMD) were consolidated into a singular agency to ensure better national alignment with market requirements. These steps, coupled with operational improvements to drive efficiency, including tightly controlling HMD's cash position and build quality enhancements, saw continuous sales improvements in most regions around the world.

Another customer is Ensky Technology Pte. Ltd. ("Ensky") for which the Group has been manufacturing consumer electronic products such as eReaders and tablets, and voice interaction products for a sustained period of time and the Group is now its strategic supplier due to the Group's strong engineering capability satisfying the customer's requirements and expectations in terms of the ability to ramp up production in a reduced timeframe while achieving very high yield rate. Ensky is a trading company which has a long-established relationship with U.S. customers and sells consumer electronic products to them. The sales to Ensky are grouped under Asia segment as Ensky is a Singapore registered company. Ensky was acquired by Hon Hai on 1 January 2020 and became a wholly-owned subsidiary of Hon Hai and a connected person of the Company pursuant to the Listing Rules.

Another customer of the Group is Sharp Corporation ("Sharp"), 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 of the Company. Sharp offers a variety of electronic products including smart phones, home appliance, displays and other IoT devices. Japan, as its home market, offers the largest market on its mobile phone business which accounted for over 90% of its total revenue. According to IDC data, Sharp secured a top 2 ranking in Japan throughout each quarter of 2020 and top 3 in the first three quarters in Japan's 5G mobile phone market. In order to explore additional business opportunities, Sharp has started to offer other electronic devices such as MiFi router and tablet with the help of the Group's R&D resources and capabilities. In August 2020, Sharp acquired the remaining shares of Dynabook to make it as a wholly-owned subsidiary and to diversify its business.

The revenue derived from the sales of goods and rendering of services by the Group to Sharp and Ensky accounted for approximately 9.9% and 15.0% of the Group's total revenue from the sales of goods and rendering of services respectively for the current period.

In relation to the Group's continuous fostering and development of long-term relationships and partnerships with a diverse base of customers during the current period, the Group entered into a 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 technology-embedded smart phones to customers and consumers worldwide. In the second half of this year, the company released its 4th generation smartphone and the first 5G mobile phone, successfully capturing the market's attention. This customer was also impacted by component shortage, especially once the new launched products received positive feedback from the market.

The Group also has some small customers. Amongst the Group's five largest customers, one of them is newly added to the five largest customers. During the current period, they accounted for approximately 96.5% of the Group's total revenue and three of them have had long-term and well-established relationships with the Group for more than five years whilst the other two have been the Group's customers for more than two years. These major customers are not required to commit to certain minimum purchase value or volume from the Group over a period. 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 and their outsourcing strategy in a challenging handset industry and the Group pays attention to the change of market trend and external market dynamics and COVID-19 development. Some economists contemplate whether the COVID-19 pandemic could lead to a global recession. This is why the Group has kept monitoring the current economic environment and market landscape and its potential impact on both the general economy and consumption power and preferences of customers the Group serves, as well as end markets. The Group continues to closely manage and control expenses and capital resources to maximise preparedness and the ability to respond in a quick manner as circumstances change. As the Group's costs and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for a product that represents a significant amount of revenue, can affect gross profit margins and results of operations seriously. One of the top five customers of the Group is the Hon Hai Technology Group (to which Ensky and Sharp belong). Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. Revenue attributable to the Hon Hai Technology Group accounted for approximately 25.7% of the Group's total revenue in 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 allowance for credit losses made for the current period was US$6 million (when compared to the reversal of allowance for credit losses of US$0.17 million made for the same period in 2019), while allowances 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. The Group has some small customers and the exposure to financially troubled customers or suppliers may adversely affect financial results. Especially due to the hit of COVID-19, some of the Group's customers may experience financial constraints and the Group could have difficulty in recovering trade receivables, or can also result in reduction of demand for the Group's products and services from these customers. Given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group have been deferred, the Group materially increased its allowance for credit losses arising from trade receivables during the current period. The Company will continue to closely monitor the situation, and where it considers necessary, will make a greater allowance for expected credit losses arising from trade receivables.

Apart from offering production sites in different countries, the Group's strategy and business model are to work with the customers to provide holistic services from the initial concept design stage up until the end of the production process managing all aspects of sourcing, development and production start-ups and assembly and services of phone and provide a complete range of cost-competitive and vertically-integrated global supply chain solutions for its customers. Such initiatives can help accelerate product time-to-market and time-to-volume and efficiently bring new products to production and scale production for quickly changing customer demands. This also enables customers to leverage on the Group's supply chain solutions to meet their product requirements throughout the life cycle of their products and allows new products of customers to be launched to the highly competitive marketplace in an accelerated time frame. Rapid changes in technology, evolving industry standards, and requirements for continuous improvement in products and services have resulted in short product life cycles. 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. But because of outbreak of COVID-19, end market demand becomes uncertain and our customers are more cautious in their demand planning and demand visibility is shortened and this makes it difficult to schedule production and maximise utilisation of our manufacturing capacity. 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 and development to deliver all projects in a timely manner. The Group is dedicated to continue to build competitive advantages that are core to our success and this includes focuses on global deployment, competitive costs, superior quality and customer service, rapid product development cycles, use of new technologies and solutions, ability to design for large-volume and low-cost production, and control of multiple production inputs through our vertically integrated operations. But 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. Customers which own manufacturing facilities and capabilities may reduce outsourcing so as to optimise its own capacity utilisation. Customers may fail to successfully market their products, and customers' products may fail to gain widespread commercial acceptance and customers' products may have supply chain issues (including as a result of the COVID-19 pandemic) and customers may experience dramatic market share shifts in demand which may cause them to lose market share or exit businesses. On the other hand, 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 and customers. Confronting more diversified product lines and customer demands, the Group will deliberately enhance the core competence and differentiate us from our competition by means of keeping pace with technological changes and competitive conditions in OEM industry, effectively adapting our services as our customers react to technological and market changes and competitive conditions in their respective market segments, optimising production process, magnifying efficiency, escalating automation, executing solid cost-control measure and cultivating talents.

On top of phone manufacturing business, the Group also has a strong reverse logistics and repair services function which offers global integrated solutions providing customers the end-to-end value-added manufacturing services and after-market-service covering the entire product life cycle with best-in-class quality, cost and ability to deliver. The Group's services include after-market management, repair/refurbish services, product asset-recovery, excess inventory on-line sales, integrated regional manufacturing, packaging, and fulfilling. Forward/reverse logistics and manufacturing expertise are provided by the Group to multiple product lines such as mobile phones, consumer/industrial drones, smart home devices, set-top boxes, IoT products, and automobile electronics and its customers including name brand OEM, Mobile Carriers, retail channels. The core competencies which the Group upholds and demonstrates in this part of business are (1) experienced, international talent and teams, (2) comprehensive product engineering capability, (3) E2E (End-to-End), complete after-market service solutions, (4) online-offline operation integrations, and (5) customised service-models.

The short-term nature of the Group's customers' commitments and demand visibility and the rapid changes in demand for their products reduces our ability to accurately estimate the future demand and requirements and order book of our customers. This makes it difficult to plan and schedule production in an efficient and cost effective manner so as to maximise utilisation of our assets and capacity. In that regard, the Group monitors closely market landscape and communicate well with customers and determine the levels of business that the Group can take. 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 has further prolonged 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, and most importantly the COVID-19 disruption in economy. 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. The Group changed its head office from Langfang, China to Taipei with effect from 26 March 2021 as the Group continues to focus on and expand its operation outside China.

Impacts of COVID-19

The spread of COVID-19 has severely impacted the global economy. These were incredibly uncertain times for the financial markets, with countries around the world suffering the destabilising effects of the pandemic. No company is immune to the challenges, and the repercussions of the health crisis have been felt for many more months. The economic damage caused by the COVID-19 pandemic is largely driven by a fall in demand, meaning that there are less consumers to purchase the goods and services available in the global economy. To serve the customers better, the Group has put a lot of efforts to minimise adverse impacts of COVID-19 to its productions and disruptions to customers. As a lot of countries have implemented local lockdowns, precautionary and quarantine measures as well as travel restrictions, those measures have led to the suspension of the Group's principal production and manufacturing activities as well as a slowdown in overall local demand and commercial activities for some time, all of which have contributed to a drop in the Group's sales, revenue, asset utilisation and contribution margin. In light of the reduction in scale of the Group's manufacturing activities, the Group has had to re-arrange shipments 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 those countries with lockdowns, the outbreak of COVID-19 has had a negative impact on these parties as people's lives are disrupted by social distancing measures and huge uncertainty and many of whom face the risk of a decline in sales and revenue and pressure on cash flow. COVID-19 outbreak lead to shortage of components (like chipsets and displays), and materials constraints and prolonged delivery lead time and rises in prices. The Group has put a lot of efforts to try to overcome the difficulties and resume the operation in a quick manner and have put efforts to negotiate, discuss and arrange with its customers, vendors, suppliers, logistics partners to share the risks and reach mutual benefits and foster long-term relationship between the parties in the difficult time. As mentioned above, multiple negative factors triggered by the COVID-19 outbreak, pandemic and on-going developments have adversely affected the Group's performance in different areas, and in addition, there have been other challenging conditions that the Group has been facing since late 2017 that have continued into 2021. On this basis, it might not be practicably possible for the Company to reasonably and meaningfully make a quantitative measure of the COVID-19 financial or operational impact on the Group. But as the COVID-19 pandemic situation continues to evolve, the Group will continuously evaluate the situation and, where appropriate, announce material business developments and make appropriate disclosure about the impact of the COVID-19 pandemic on the Group's operations, financial performance and financial position, and an assessment of the risks and impact on the Group's future performance to keep shareholders and investors timely informed.

COVID-19 has brought much of the world to a standstill which entails tremendous risks. Moreover, COVID-19 has brought to the forefront the risks pertaining to the concentration of supply chains and manufacturing in certain geographical areas and has led to increasing discussion and efforts to diversify and deconsolidate supply chains. Many companies have realised the risks of this over-interdependence and intend to curb it. A Bank of America report states that 80% of the multinationals investigated plans to repatriate part of their production, known as re-shoring, a trend that COVID-19 could turn into a tidal wave. Currently, there is a wave of production facilities transition from China to other countries to minimise the potential risks and disruption of operation due to the COVID-19 pandemic and U.S. and China tensions. When the pandemic is finally overcome, globalisation will resume but in a guise that is less intense and different from the one the world has known. This uncertainty will be a key challenge for companies globally and the Group has put an effort to global expansion of its production to mitigate this impact.

Vietnam Site

In 2020 the COVID-19 pandemic had a significantly and broad impact on the world economy. However, Vietnam emerged as one of the rare economies with positive growth in the region and the world thank to the effective measures the Vietnamese government put in place to control the virus from spreading. The statistics show that Vietnam's growth rate has maintained and increased from second quarter to third quarter of 2020, the industrial production index and retail sales have doubled. Total foreign invested capital has increased in recent months and the labour market conditions are gradually returning to normal situation. According to the World Bank, these are good signals that, in the future, Vietnam's economy has shown strong signs of recovery with the GDP growth rate of Vietnam expected to reach 2.5–3.0% in 2020 (forecast by World Bank is 2.8%). 2020 has been a challenging year but also a year of opportunity for the Group's Hanoi site. Facing the COVID-19 at the beginning of the year with shortage material then reduced demand, Hanoi has put all measures in to protect the factory and its employees, suppliers, customers from COVID-19 and has prepared for the coming back once the pandemic is controlled in Vietnam and China. With the clear guidance and strict method for prevention and protection of COVID-19 pandemic of the Vietnam's Government, Hanoi site has set out the important tasks that it must prevent and protect its people from COVID-19 pandemic, simultaneous maintain production as normal as possible. Thanks to the Group's strategy in 2019 to diversify the facility's customer bases, satisfy its licensing requirements to produce wider range of electronic products from mobile phone to home/enterprise electronics devices, to serve customers from Asia to Europe, America etc. With many companies looking to diversify their manufacturing base from China to other countries to reduce risks, Vietnam has emerged as an appealing destination for investment due to an increasingly improved business environment, a large scale of domestic market, increasing people's living standards and other similarities with China in culture, politics, geographical location, especially COVID-19 protection and prevention methods during the past time. The opportunities also pose a challenge to Hanoi factory in term of attracting, retaining talented employees as other newly set up companies flocked in to look to experienced, talented people from the factory. This has also contributed to rising wages, raising much higher than the inflation while competitors keep lowering on prices. In order to attract the new investment wave, Hanoi site has renewed and diversified its investment attraction and promotion to invite international brand name manufacturers. On the other hand, Hanoi site has been introduced to international brand manufacturers about infrastructure, equipment, machines as well as high skilled workforce. Furthermore, Hanoi site has an advantage of favorable transportation condition to easy access and near airport, seaport and border gate next to China. In anticipation of growth, there has been investments and improvements made in the infrastructure system, workshop, machines, equipment and other necessary facilities of the Group's Hanoi site.

India Site

India has recorded the second-highest number of COVID-19 infections in the world after U.S. In June 2020, after the first two rounds of lockdown in India had ended, the country was recording nearly 10,000 daily cases of COVID-19. After that, the graph rose up till mid-September 2020 when cases peaked in the country with almost 100,000 cases recorded every day. Since then, the COVID-19 graph in India has been declining. This was mainly due to aggressive testing by the respective state governments followed by contact tracing and isolation. On 8 December 2020, India recorded 26,567 cases — a quarter of the cases recorded in mid-September 2020. India began vaccinating people for COVID-19 in January 2021, Union Health Minister Harsh Vardhan said in December 2020 that India government's priority has been the safety and efficacy of the vaccine. The vaccines that have applied for emergency use authorisation are being analysed by the drug regulator. India's scientists and health experts have worked on an indigenous vaccine and in the next six to seven months, India will have the capacity to inoculate about 300 million people. In January 2021, Prime Minister Narendra Modi launched the programme, which aims to vaccinate more than 1.3 billion people against COVID-19. He paid tribute to front-line workers who will be the first to receive jabs. Millions of doses of two approved vaccines — Covishield and Covaxin — were shipped across the country in the days leading up to the start of the drive. "We are launching the world's biggest vaccination drive and it shows the world our capability," Mr Modi said, addressing the country. He added that India was well prepared to vaccinate its population with the help of an app, which would help the government track the drive and ensure that nobody was left out.

Regarding the impact of COVID-19 on business and operations of India site, India site's operations were resumed in a carefully calibrated manner under quarantine bubble starting in May 2020. By July 2020 its operations were swiftly ramped up to 50%–60% capacity respectively under the mandate of the program to fulfill 100% of customer orders while minimising infection risk. Taking cue from headquarters, India site followed the three principles of fighting COVID-19 i.e. Quarantine (preventing infected personnel being transported in or out of the factory/workplace), Epidemic Prevention (taking the needed actions to prevent virus to spread within the factory/workplace) and Isolation (taking actions to ensure segregation of risk group with healthy group during pandemic period). Thereafter, capacity utilisation of the operations has kept improving.

According to official figures published by Government of India — The Ministry of Statistics and Programme Implementation, Indian economy recorded a rise from a negative growth rate in gross domestic product to a positive of 0.4% in the final three months of 2020, compared with the same period a year earlier. After the country plunged into severe recession due to pandemic, it has already gradually recovered from the slump. With rise of e-commerce, continuance of Work From Home policy for majority of companies and delivery of e-education, demand for ICT goods will continue to rise. New business from EVs and Audio category would further add to sales. In order to execute India operation's long term strategy of vertical integration and product and customer diversification and thereby offering end to end solution to customers, a sizable investment has been earmarked by the Group to expand India site's existing metal and plastic manufacturing facility which makes sim tray, shield, frame and covers etc. This would make the Group's India site one of India's largest manufacturers in the segment with very strong capabilities in all areas.

Key Relationships with Suppliers

For the Group, supply chain management and supply chain performance always hold a dominant position within operation execution excellence in our trade. 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. During COVID-19, companies along the chain are doing exactly the same, stopping materials from coming in and pushing finished goods out. Suppliers try to push for goods movement to the Group. But in this difficult period of time, the Group has to preserve cash and control inventory level. Considering unprecedented challenges generated by unbounded market volatility in this year, effectiveness of supply chain management has practically driven the rise and fall of business in 2020. Among others, COVID-19 pandemic and trade tension between U.S. and China clearly stood out as the key determinants under an extremely complex circumstance.

The Group's supply partners include suppliers for raw materials, electronic components and parts, display module, camera module, battery, enclosure and packaging materials, who are generally selected based on 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, requirements from customers, scale and industry reputation and financial strength. Purchases from the Group's top five suppliers accounted for approximately 67.5% of total purchases of the Group in the current period.

Amongst the top five suppliers, all of them have long-term and well-established business partnership with the Group for more than five years. The Group's contracts with these major suppliers do not require them to reserve manufacturing capacity nor produce or guarantee minimum supplies to the Group, from which supply fluctuation exposure to the Group is low and under control. Notwithstanding the apparent consolidation of purchases from these major suppliers to secure competitive pricing, the Group is not at any material risk of disrupted supplies from the Group's suppliers as demands are planned with sufficient redundancy considering potential supply delay or shortage. In addition, there are vast number of alternative suppliers in the market for the Group to work with when it is decided necessary. The Group forecasts that it will not be subject to significant material cost increase or supply delay if the Group is to engage with new suppliers in instances where such need arises. With improved inventory management and purchasing power, the Company is often able to more efficiently manage both procurement and inventory, and has demonstrated proficiency in purchasing components at improved pricing due to the scale of our operations and continuous interaction with the materials marketplace.

Notwithstanding that there are many suppliers in the market that the Group could potentially engage with, over the years the Group has consolidated its purchases with major suppliers due to the ease of procurement process, stability of supply and superior commercial terms (especially pricing) offered by them. One of the top five suppliers to the Group is the Hon Hai Technology Group. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. Purchases attributable to the Hon Hai Technology Group accounted for approximately 10.7% of the Group's total purchases in the current period.

Continuing on from 2019, escalating trade tension between U.S. and China has erected a fundamental change driven by customer demand in material supply market in the first half of 2020 and signals a paradigm shift. As it continued to evolve, by each different commodity in its own industry, case by case, supply sources to be located outside of China were specifically requested to be built, adjustments from within the Group and those delivered by the market continued to raise uncertainty to both component supply and pricing. Right at the moment when the Group and the industry struggled in coping with the change and the situation, COVID-19 took the center stage of the world in a blink of eye. The Group had experienced supply slowdown first from a nationwide shutdown in China, and, as it evolved, from following closedown in South Korea and Japan, and later closedown took place in SEA (South East Asia) region. Supply disruption reached its peak in March 2020. First half of 2020 went by with a multitude of problems in highly complex market to supply chain, among which, there were supply constraints remained from non-recovered countries in SEA like Philippines and Malaysia, there was demand slowdown caused by extended closedown in major consumer markets, and, on top, emerging signs of additional demand competition created by higher demand to online, work from home devices.

Second half of 2020 has not been any easier. It was a clear sign of continuing demand and supply risk in the market when they did rise up again in countries and regions where infection had been successfully contained earlier in the year. Along the way, escalating U.S.-China trade tension continued to raise higher stake to each other and to the rest of the world. Restriction of certain named U.S. technology and material supply placed by U.S. authority to certain named Chinese businesses created a peculiar yet very significant demand shift within a relatively short time window. Frequent tight supply or shortages over wide range of common electronic components started to crop up from third quarter, continued on into forth quarter. ICs, certain passive, filters, LCD display, sensors were altogether showing signs of tight supply with rising price and extending order lead time during a typical high season in the year. Continuing trend of stronger demand and very tight supply lasted till end of the year and to roll over into first quarter 2021, and most likely will continue in second quarter 2021.

Basically, at high level, adequate supply is expected to be available in filling market demand in 2021 but with uncertainty in semiconductor supply. Out of proportion demand increase in certain commodities, generated through new applications like 5G communication and autonomous driving features adopted by traditional vehicles and EVs, may tip off the balance between demand and supply from time to time. Given a few uncertainties and challenges like new administration coming into office in U.S., escalating trade tension between U.S. and China, COVID-19 vaccine development, successful pandemic containment/lockdown measures in major consumer markets and growth in 5G phone market, business environment is too complex for longer term forecast to last and hold. The Group remains vigilant to the changes which will unfold over time and will be prepared and react to the best of its capacity.

For details, please refer to the "The Group's Value Chain" section of the Company's separate 2020 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

In response to the potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has its diversified customer and supplier base, and has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. For details, please refer to the "Accountability and Audit" section of the Company's 2020 corporate governance report, which forms part of the annual report incorporating this report of the directors. 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.

Key Relationships with Employees

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 talents. 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. The Group always emphasises employee benefits as well as harmonious labour relations, and highly values employees' opinions and feedbacks. In order to communicate effectively with staff, the Group provides channels like meetings, emails, or mail boxes for employees to reflect their thoughts. Currently, the communication between the Group and employees is well conducted and employees can fully express their opinions, raising any labour issues to promote and maintain a positive labour relationship. Pursuing sustainable corporate development and embracing integrity is our highest guiding principle, and the Company has established relevant business ethic guidelines. Based on the guidelines, employees are required to follow the moral and ethical standards and advocate integrity, honesty and confidentiality to protect the rights and interests of the Company and its shareholders as a whole and enhance the Company's competitiveness.

While the Group is following the requirements of governmental authorities and taking preventative and protective measures to prioritise the safety of our employees and staff and customers and suppliers, the Group has spared a lot of resources and introduced SOPs (Standard Operating Procedures) and recommended guidance on a range of health and safety protocols and behaviours like a cessation of employee travel, personal hygienic procedures, disinfection of surfaces, and social & physical distancing to employees. As the COVID-19 situation has evolved in various countries where the Group's sites are located, the Group imposed strict measures to ensure employees stay healthy and prevent the spread of virus during the COVID-19 pandemic, including enhanced screening works of checking employees' body temperature daily, organising work in a way to allow for social distance, and improving exhaust ventilation to provide more clean make-up air to rooms, etc. Also, employees must wear mandatory face masks when they report to work. To reduce potential transmission of the virus, employees are clustered into different groups and eat/work in shifts. The Group has constructed dividers at canteen tables to reduce risk of transmission while dinning. QR codes have been placed on cafeteria seats and meeting rooms as well, which employees are required to scan to enable proper tracing. The Group also uses its APP for providing employees with up-to-date reliable information on the situation and prevention guideline of COVID-19. To protect the well-being of employees, relaxed attendance or leave policies allow employees to stay home if they have any related symptoms at higher risk of being infected or are quarantined.

Hanoi site is now actively enhancing and changing the way of training methods for its employees in order to have enough workforce with high skills to produce high-tech products. One of attractive points for international brand name manufacturers in comparison to other local competitors so that Hanoi has now committed to, applied for and complied with the highest standards of corporate social responsibilities (CSR), business ethics, environment and health such as SA 8000 standard which are recognised international brand names. Furthermore, Hanoi site always applies the best policies for its employees and complies with laws of labour in relation to working hours, wages, rests, labour collective agreements etc. and also provides wide range of benefits and interests for its employees which are higher than the laws and local competitors. Besides, Hanoi site also builds a good corporate culture as well as creates a dynamic and creative working environment and builds a development roadmap for employees in both salary and promotion. These advantages are significant factors to attract international brand name manufacturers and labour force.

India site is giving lot of focus on training methods for its employees to achieve very high skill level of its employees which will have a positive impact on the productivity. India site takes various steps in this regard. Special attention is given for safety of employees by giving awareness in training to tackle COVID-19 situation. It also focuses on the employee welfare through various initiatives and programmes. A number of cultural activities were conducted. The employee welfare and facilities like canteen, dorm, etc. are well above the industry standards in India. Carrier growth and increments offered by India site is always better than the industry bench mark which helps us to attract the best talent to the Company. India site also gives lot of importance for Corporate Social Responsibility (CSR) by carrying out various community welfare initiatives. All applicable labour laws and factory laws are strictly followed.

The Group has built up its core competence via establishing a global experienced R&D team with offices in PRC, 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 has continued to devote resources to enhance R&D competence and 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 2020, the Group had a total of 70,381 (31 December 2019: 85,729) employees. Total staff costs incurred during the current period amounted to US$476 million (full-year 2019: US$531 million), and the year-on-year decrease was mainly due to the optimisation and rightsizing of staff force according to business needs. In view of the Group's changes in product portfolio and excess capacity, the Group has refined its approach and taken necessary steps with a view to becoming an asset-light and lean corporate group, and accordingly, has to continue to rightsize/restructure the underperforming parts of its manufacturing operations, thereby incurring inevitable rightsizing/restructuring costs, expenses and/or losses and hence giving rise to adverse impacts on the Group's 2020 final results and potentially its financial performance in 2021.

The Group offers a comprehensive and competitive remuneration policy which is reviewed by the management on a regular basis. In general, the Group's merit-based remuneration policy rewards its employees for good performance, contributions and productivity. The Group treats all employees equally and fairly, and evaluates employee performance (including determining promotions and wage increments) objectively based on merit, ability, and competence. To encourage employee retention, the Group has implemented annual bonuses, time-based/performance-based incentives and other incentive programs. In particular, the Company has adopted the Existing Share Scheme and the Existing Share Option Scheme, respectively, as described in the section headed "Share Option Schemes and Share Schemes" of this report of the directors, pursuant to which (among other things) the Board (or its duly authorised officer(s) or delegate(s)) may, at its/their absolute discretion, offer share awards or share options (as the case may be) to the eligible employees of the Group and other eligible persons upon and subject to the respective terms and conditions set out therein. The Existing Share Option Scheme complies with the requirements of Chapter 17 of the Listing Rules. In addition, subject to the approval of the Company's shareholders at the Company's forthcoming annual general meeting (which is currently scheduled to be held on or about 28 May 2021), the Board has approved the implementation and operation of two share option schemes at the subsidiary level of the Group (the "Proposed Subsidiary Share Option Schemes"), one relating to Mobile Drive Technology Co., Ltd. (an indirect subsidiary of the Company incorporated in Taiwan whose principal business activities are provision of services to group companies, mainly research and development services) and the other relating to Rising Stars Mobile India Private Limited (an indirect subsidiary of the Company incorporated in India whose principal business activity is manufacture of handsets). For details, please refer to the Company's circular as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors. The Group has also introduced non-monetary rewards (including housing incentives) for employees with exceptional performance and contributions. Employees also enjoy insurance coverage provided by the Group. 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 2020 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

Review of Results and Operations

Financial Performance

The financial KPIs (Key Performance Indicators) include 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, core competencies, 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.

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 this metric is a great indicator of a company's financial health and indicates whether a business is capable of paying its operating expenses while having funds left for growth. A higher percentage of gross profit means a stronger ability to control cost of sales, which include control of variable costs such as BOM (Bill of Material) 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 or a change in the pricing policies.

The impact of COVID-19 has resulted in disruptions, higher costs and supply shortages, and has had an adverse effect on the Group's operating results. The Group recognised a consolidated revenue of US$8,935 million, representing a decrease of US$5,444 million or 37.9% when compared to US$14,379 million for the same period last year. Net loss for the current period was US$173.8 million, when compared to a net loss of US$12.2 million for the same period last year. The Group's net loss is primarily attributable to various factors, including:

(1) the challenging conditions that the Group has faced since late 2017 have continued into 2020 and there is continued pressure on the Group's gross margins generally. Because of keen competition and surplus capacity in the market, business of the Group's customers are also now facing strong headwinds. The Group has been putting effort on continuous development and penetration of the Chinese and international brand customers and efforts to expand production capacity in India and Vietnam and maintenance of Nokia-branded feature phones as key supplier of feature phones to HMD and other businesses. But gross margin of system assembly business is really very low. There has also been continuous pressure on and challenges to casing business due to keen competition as a result of surplus capacity in the market and low entry barrier. Through business development effort in 2019, as there was growing demand of casing business from one of the Group's customers in China in 2019 and its Shenzhen plant cannot fulfill all demands, therefore, the Group expanded its casing capacity in another PRC site in 2019. But due to blacklisting issue, utilisation of the casing assets of that site has reduced and the Group determined to rightsize scale of operation of that site and transferred some of the useful assets to other locations whilst at the same writing off or disposing obsolete/under-utilised assets. The markets with fastest-growing smartphone demand are mostly developing countries, such as India and East and Central Europe, where the average income level is low and people tend to purchase much affordable mobile phones, which are low- and mid-end models with lower margins. In order to meet the shift in consumer market and customers' demand, the Group accepted more low-end devices manufacturing orders which contribute to profit erosion too.

    As explained, coupled with the impact of COVID-19 outbreak, one of the Group's major Chinese customers which is hit by U.S. sanctions caused impacts on the Group's sales revenue and business development and asset utilisation for 2020 and the impact is expected to extend to 2021. The significant drop of orders from this customer not only bollixed the Group's production planning but also caused an significant impact on its utilisation of assets and the Group has to write-off and impaired the under utilised asset and to carry out downsizing and restructuring activities and incur restructuring costs and the impact will last to 2021. Though the increased demand from other customers might mitigate some the above mentioned impacts, it still cannot fully offset the influences caused by the Group's major customer's order reduction. Nevertheless, this particular customer sold its smartphone sub brand business to a consortium of government-backed companies to ensure its own survival. The Group keeps seeking other business opportunities and monitoring the market situation and intense competition to maintain our position in the industry.

(2) the outbreak of COVID-19 in January 2020, the Group has extended the Chinese New Year Holiday and temporarily closed its factories in China in February, and in India in March 2020. The pandemic is unprecedented and it has adversely impacted on not only global supply chains but also consumer demand and length of demand visibility and has contributed to a slowdown in the global economy generally, in part as a result of various lockdowns and restrictions. All these have materially and adversely affected not only the Group, but also its customers, suppliers, associates, joint ventures and investees and, accordingly, the Group's and their respective operations and resulted in the decline of the Group's asset utilisation. In light of the reduction in scale of the Group's manufacturing activities, the Group has had to rearrange the shipment without violating any customer contract terms. Pending further the mass COVID-19 vaccination programme, many of the world's major economies have imposed local restrictions in an effort to control further spread of the virus, and the cumulative effect of those efforts has been to materially and adversely affect consumers' activities and buying behaviour and, ultimately, demand. Cash position of some customers is also a concern and adequacy of ECL allowance of these customers is under close review and monitoring. Those challenging conditions above and those other unfavorable factors affected the Group's asset utilisation and production cycles and inventory management, collectibles and adversely affect our ability to cover fixed costs and our gross margins and results of operations.

On top of the industry wide gross margin erosion pressure due to market saturation and keen competition abovementioned, the decline in downstream consumer demand which has been significantly affected by COVID-19 pandemic and asset utilisation of the Group deteriorated. Consumers became more price-sensitive while buying high-value electronic products, led to a widespread excess of supply over demand in the handset market in the beginning of 2020, yet the depreciation of the Group's properties and equipment and cost of indirect labour and staff still required to be recognised while they were temporarily idle. On the other hand, there are needs to spend a lot on pandemic measures. In order to comply with local regulations and protect employees' health, the Group spent numerous time and effects on COVID-19 preventative measures to strictly curb the spread of the virus. Due to the lockdown in the China in the first quarter and India in the second quarter, the Group had to spend the additional and unexpected cost in the resumption of production. COVID-19-related costs incurred comprised of direct and indirect costs, including manufacturing inefficiencies related to lost revenue during lockdowns due to the inability to secure materials, idled labour costs, and incremental overhead, expedite fees and freight premiums, sanitary supplies, personal protective equipment, rent of additional dormitories and paying sick leave rate for quarantined workers who have zero output. For some PRC sites, they succeeded to apply for relief packages from local government and relieved the burden.

IDC expects the market to return to grow in 2021 mostly speed up by a quick supply chain recovery as well as 5G devices launches picking up from the damage of the pandemic. In the long-term forecast, IDC expects the overall smartphone market to reach 1.466 billion units and 5G smartphone shipments will grow to 58% in 2024. As for the global economy, the IMF has shown the global growth contraction for 2020 is estimated at -3.5%, resulting from severe economic situations in the first half and stronger-than-expected momentum in the second half. Although recent vaccine approvals have raised hopes of a turnaround in the pandemic, new variants of the virus pose concerns for the outlook. The global economy is projected to grow 5.5% in 2021 and 4.2% in 2022. Also, it said recovery is likely to be "partial and uneven", which means except for China, economic activity next year is likely to remain below 2019 levels in most major economies.

(3) The Sino-U.S. political conflicts had shown no sign of easing in 2020, particularly after the U.S. government took steps to restrict the availability of certain U.S. technologies and materials to specific Mainland Chinese companies, and (among others) the ban on Mainland China's largest chipmaker. During COVID-19, more people work at home and there are greater demand of product like servers and notebooks and capacity of manufacturing components for phones decreased. This has resulted in tighter supplies, and even shortages, in a wide range of common electronic components over the third quarter of 2020, thereby increasing pressure on the supply chain during a typically peak season of demand in the year. Some common electronic components such as ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. appear to be subject to tighter supplies, with rising prices and extended order lead times. The Group may not be able to recover all of the component price increase from the customers. In addition, Mainland China's smart phone market appears to be undergoing a process of recalibration because of the U.S. sanctions against one of the key players in the market, which, in turn, has caused more uncertainties in order book, planning, production and logistics.

Due to above factors, gross profit for the current period was US$95.2 million, represented a decrease of US$158.1 million gross profit from that for the same period last year. Gross margins for the current period was a profit of 1.07% and was worse than the profit of 1.76% for the same period last year.

(4) a substantial loss arising from the impairment and write-off of the Group's under-utilised/obsolete assets. Although Mainland China has so far shown a robust recovery from COVID-19, handset demand remains weak. In addition, market conditions are challenging and competition is keen. In view of the Group's changes in product portfolio and excess capacity, the Group has refined its approach and taken necessary steps with a view to becoming an asset-light corporate group and, accordingly, the Group needs to substantially impair and/or write-off various under-utilised/obsolete assets of US$42.7 million (2019: US$10.9 million). Because of low asset utilisation and the decline of sales to some of the customers, the Group rightsized/restructured some of the loss making manufacturing operations and some underperforming part(s) of its business/manufacturing operation and thereby inevitably has to incur restructuring costs and expenses which further affected the Group's 2020 final results. As the restructuring takes time, 2021 result will continue to be affected.

On the basis of a preliminary review of the Group's latest unaudited management accounts and other information currently available, the Company currently expects that: (a) the Group's financial resources (including cash, cash flow and liquidity positions) and working capital remain sufficient to finance its continuing operations and capital commitments; (b) the Group would have sufficient funds to satisfy its working capital and capital expenditure requirements for the forthcoming 18-month period; and (c) no significant events nor circumstances might adversely affect the Group's ability to fulfill its financial obligations or meet its debt covenants in a material respect. However, to seek to ensure that the Group will maintain that, and given the significant change in market demand and consumer-buying behaviour resulting from COVID-19, the Group has continued to focus on measures to control overall costs and operating expenses, and to seek to ease pressure on margin erosion, while at the same time working closely with customers to fill their demand at a reasonable cost amidst fierce market competition. It is the Group's business strategy to become more asset-light and lean, and accordingly, the Group has continued its rightsizing/restructuring of the underperforming parts of its manufacturing operations, and has generally suspended capital expenditure on non-critical investments and/or capital assets (except India where the Group is keen to expand) and has also got rid of its obsolete, depreciated and under-utilised assets. The Company will continue to closely monitor the situation, and where it considers necessary, will implement further appropriate measures like carrying out further rightsizing and restructuring activities. The Company has been working hard and doing everything that it reasonably can to improve its performance through these challenging times. The Company will keep matters under close review as 2021 progresses.

As a whole, there is a continuous need to reduce redundant assets and people and 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 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 on a global basis.

Other income, gains and losses for the current period was US$159.2 million, representing an increase of US$16.4 million from that for the same period last year. The Group has experienced a foreign exchange loss of US$0.03 million for the current period, compared with the Group foreign exchange loss of US$57 million in the same period of 2019. As stated in the Company's 2019 annual report as issued and published on 16 April 2020, the Group had modified the currency settlement mechanism with its customers in India, thus exposure to Indian Rupees (INR) was minimised in 2020. As for Renminbi (RMB), since the COVID-19 epidemic spread out to Europe and U.S. while the situation got ease in China, RMB against US$ appreciated a lot from second quarter of 2020. In response to the rapid volatility in the foreign exchange market, the Group adopted a strategy of squaring RMB position at earlier stage, which also helped to narrow down the currency exposure and led to slender loss in 2020.

Fair value gain of short term investments at fair value through profit or loss decreased by US$6.7 million to US$2.4 million for the current period. Service income also decreased by US$29.8 million and service income for the current period was US$34.1 million (2019: US$63.9 million) and was mainly due to decrease in the product development service provided to customers. Government subsidies for the current period were US$56.8 million, including the relief packages related to COVID-19. In addition, to lower the cost of production, the Group moved some of the manufacturing to some inland cities and incurred relocation costs and additional logistic costs and the government provides support to reduce impacts of these parts of burdens to the Group. There are also other types of incentives to encourage enterprises to improve technologies and export more.

Loss on impairment and write-off for property, plant and equipment for the current period was US$42.7 million (2019: US$10.9 million), due to restructuring or downsizing activities as a result of changes in the handset market and the presence of surplus capacity and exit from less profitable or loss-making or under-performing operations.

Regarding operating expenses, for the current period was US$366 million, compared to US$367 million for the same period last year. For selling expenses, there was a year-on-year decrease by US$2 million. In the past, for freight charges, capacity growth of logistic industry outstripped the demand rate and kept air freight rates down. But because of COVID-19, there have been disruptions to our logistic partners and freight charges remain volatile due to capacity gap and demand surges. Ocean freight equipment scarcity adds to the pressure on expedited airfreight cost. During COVID-19 outbreak, more countries had to restrict global air, impacting a significant amount of cargo space. Most of these changes took place overnight, with countries announcing new regulatory protocols, leaving supply chain managers scrambling to make alternative arrangements. There is need to maintain existing team to handle a lot of logistics issues triggered by COVID-19 despite of the decline in shipment amount. For R&D expenses, there was a year-on-year increase by US$15 million due to continuous investment in product innovation in order to remain competitive and offer unique value to customers. For general and administrative ("G&A") expenses, there was a year-on- year decrease of US$14 million and the decrease was mainly attained by reduction in payroll costs, and the optimisation and rightsizing of staff force, and stringent overheads and costs control.

Interest expenses for the current period was US$12.2 million, compared to US$37.5 million for the same period. The decrease was mainly due to decrease in average loan balance and interest rate during the 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 this KPI indicates how much of each dollar earned by the company translates into profits which results 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) and reflects on the profitability of a business and shows how fast the company can grow in the long-term prospect. In light of the factors mentioned above, net loss attributable to owners of the Company for the current period was US$173.9 million, as compared to net loss attributable to the owners of the Company of US$12.3 million for the corresponding period last year. The net loss margin for the current period was 1.95%, as compared to the net loss margin of 0.09% for the same period last year.

ROE (Return on Equity) during the current period, 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 8.35% negative, when compared with the ROE for the same period last year of 0.58% negative.

This KPI indicated the capacity of a business to use shareholder's investments efficiently, generating high profits. The Return on Equity shows how much revenue a company generates for each unit of shareholder. The return on equity ratio not only provides a measure of your organisation's profitability, but also your efficiency. A high or improving ROE demonstrates to your shareholder's that you're using their investments to grow your business.

Income tax expense during the current period was US$25 million, when compared to income tax expense of US$28 million for the same period last year. The income tax expense was mainly due to income tax incurred in certain profitable entities during the current period such as U.S. entity and India entity. U.S. entity is profitable during the current period which is generated from repair services. India entity is profitable during the current period which is mainly attained by the optimisation and rightsizing of stringent overheads and costs control. The Group has modified the currency settlement mechanism business model with its customers in 2019 for India business and reduced significant foreign exchange loss while compared to the same period of last year.

As mentioned above, there is need to impair under-utilised/obsolete assets. During the period ended 31 December 2020, there was US$42.7 million loss on impairment and write-off recognised for property, plant and equipment, compared to loss on impairment and write-off recognised for property, plant and equipment of US$10.9 million for the same period last year. And after evaluating the investment portfolio, the Group had disposed of some of its investments in 2019 to realise the investment gain or minimise potential loss, and the Group will keep monitoring its remaining investments and realise financial returns from or seek exit opportunities for certain investments in 2021 to maximise the Group's benefits (financial, operational and otherwise) from any such investments.

Basic loss per Share for the current period was US2.13 cents.

Dividends

The Company has adopted the following dividend policy which aims at enhancing transparency and facilitating its shareholders and potential investors to make more informed investment decisions — the form, frequency and amount of dividends to be declared each year and dividend pay-out ratio will be dependent upon the Group's business outlook, financial performance and cash flow generated from operations, projected working capital and capital structure, capital expenditure and capital requirements, cash position and other relevant factors as the Board may deem appropriate. The performance of the Group has been volatile in the past couple of years and the COVID-19 outbreak and U.S. ban have led to a lot of uncertainties for the coming periods of time and the Group needs time to recover (please refer to "Outlook" below) and to maintain a healthy capital structure. Therefore, the Company will continue to closely monitor the situation, and where it considers necessary, will adjust and/or enhance its dividend policy, as appropriate.

On 26 March 2021, the Board resolved not to recommend the payment of a final dividend for the current period.

Sales

For 2020, the Group recognised a consolidated revenue of US$8,935 million, representing a decrease of US$5,444 million or 37.9%, when compared to US$14,379 million for the same period last year as a result of COVID-19. The Group will continue to provide OEM and ODM service to international brand mobile phone customers and also 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. As a result of the blacklisting of one of the Group's major customers, the negative impact will envisage in 2021. 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. But the landscape has changed quite dramatically in recent years and the fierce competition makes it even more difficult to maintain market share. Compounding the difficulties for the global smartphone market is the fact that global shipments have faced the third year decline since 2016 due to saturation in certain markets. However, with grown demand in India and faster than expected adoption of 5G smart phones, the market was originally expecting a 1.45% growth in shipment in the late 2019. Yet, the COVID-19 outbreak demolished not only the mobile phone supply but also the consumer demand. Instead of slight growth in shipment, the latest IDC figures shows a 5.9% decline in 2020 smartphone shipment with a 4.4% possible rebound takes place in 2021 depending on the recovery from the COVID-19.

P&L (Profit and Loss)

Due to the ever-intensifying competition in the smartphone industry, companies are also spending more on research and development as well as marketing. For smartphone makers, the scope of differentiation has also reduced due to each company aggressively investing in research and development. While on the one hand, this helps the companies grow the popularity of their smartphone models, on the other, it has become essential since customers' needs and preferences are evolving faster. 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 2020, the year-on-year decrease of sales was mainly attributable to the conservative orders from the Group's customers due to COVID-19 countermeasures and the corresponding change of the collaboration model with HMD. Furthermore, the 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 increasingly high manufacturing costs, combined with the impact of U.S.-Sino trade war and COVID-19, 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 optimisation, quality assurance and quality control, and tighter control on manufacturing overheads and capital expenditure. But outbreak of COVID-19 has greatly reduced room of improving asset utilisation and capacity optimisation. 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 Technology 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 Technology Group's resources, giving the Group more flexibility in outsourcing capacity.

Geographical Segments (please refer to note 5 of "Revenue and Segment Information" to the consolidated financial statements)

Asia Segment

Asia segment was the Group's core performance contributor in terms of sales turnover and segment profit and despite of COVID-19, this remained in 2020 and will continue in 2021. The revenue of Asia segment in the current period was US$7,891 million, representing a decrease of 34% from that for the same period last year (2019: US$12,023 million). Due to the outbreak of COVID-19 in January 2020 and subsequent shutdowns and lockdowns and travel restrictions in Asian countries like PRC, India and Africa, sales to Asian segment were hit badly. Despite the supply chain has fully recovered in PRC and under recovery in India, the consumer demand has been profoundly damaged. The Group's major operation sites are located in PRC, India and Vietnam and the Group has extended the Chinese New Year Holiday and temporary closed its factories in China in February 2020, and in India in March 2020, and these have affected the supply to different geographical segments. The Group's customers and suppliers in Asia are affected seriously too. The Group's Asia segment business are impacted by COVID-19 which ultimately caused a negative impact on the Group's Asia segment sales (like feature phones manufactured in India which are sold domestically), asset utilisation and contribution margin. Imposition of sanction by U.S. on one of the Group's major customer also has some impacts. In the current period, Asia segment's recorded earnings were US$78 million which were lower than the recorded earnings of US$230 million for the same period last year. Segment profit represents the gross profit (loss) earned 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 low entry barrier, crowded competition and excess capacity in casing industry, gross margins of casing business continued to face huge pressure this year and ahead. In view of the Group's changes in product portfolio and excess capacity, the Group has refined its approach and taken necessary steps with a view to becoming an asset-light corporate group and, accordingly, will continue to rightsize/restructure underperforming part(s) of its businesses in 2021, thereby incurring inevitable restructuring costs and expenses and hence giving rise to adverse impact on the Group's 2020 and 2021 results. Furthermore, visibility of customers' demand is greatly shortened. The U.S. government took steps to restrict the availability of certain U.S. technologies and materials to specific Mainland Chinese companies, and (among others) the ban on Mainland China's largest chipmaker have resulted in tighter supplies, and even shortages, in a wide range of common electronic components over the third quarter of 2020, thereby increasing pressure on the supply chain during a typically peak season of demand in the year. Some common electronic components such as ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. were subject to tighter supplies, with rising prices and extended order lead times. In addition, Mainland China's smart phone market appears to be undergoing a process of recalibration because of the U.S. sanctions against one of the key players in the market, which, in turn, has caused more uncertainties in planning, production and logistics. There are needs to spend a lot on pandemic measures. In order to comply with local regulations and protect employees' health, the Group spent numerous time and efforts on COVID-19 preventative measures to strictly curb the spread of the virus. The Company's subsidiaries in Mainland China are eligible for and have applied for several relief packages supported by the Mainland Chinese government in response to COVID-19. Abovementioned challenging conditions that the Group has faced since late 2017 have continued into 2020 and further aggravated the already-difficult operational environment that the Group operates and faces and downward pressure on demand currently had continued into the remainder of 2020 in all geographical segments and will continue in 2021.

Amid fierce competition, the China and India phone market continues to be the focus of the Group. But the global economy is likely to suffer severely, leading to lower demand for mobile phones even after the massive disruption subsides. Pending further medical developments in a COVID-19 vaccine or other alternative treatment, many of the world's major economies have imposed local restrictions in an effort to control further spread of the virus, and the cumulative effect of those efforts has been to materially and adversely affect consumers' activities and buying behaviour and, ultimately, demand.

The strategy of the Group is to shift the gravity of operations and devote resources to Asia segment, including China, India and Vietnam, following the downsizing of European sites so as to further utilise economy of scale, enhance and harness the capacity, capability, competence and presence of the Group in Asia segment and develop additional businesses and customers and serve existing customers in a well manner. In particular, a lot of customers with phones shipping to the U.S. have been moving some of their PRC operations out of China and have asked the Group to manufacture phones in other Asian countries like India and Vietnam and the Group has devoted resources to expand scale of operations in these overseas locations and will continue to expand especially in India to tap the huge potential there.

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 via relocating some assets from China to India and Vietnam. India will get a boost in a post-lockdown scenario. Sales of the Group's Indian operations in the current period were about 25% 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 expand its capacity in anticipation of additional customers and product types in India. To this effect, the Group had injected additional capital of around US$119 million in 2019 into its Indian operation. In year 2021, the Group is going to enlarge the capacity and capability in India. There are a couple of reasons doing so. First, 2020 trade tensions between U.S. and China results in the shifting of manufacturing demand from China to other countries. Second, China facing rising manufacturing costs due to increases in labour costs and land costs, and lastly, China's supply of manufacturing capacity exceeding surplus demand which results in the severe margin erosion pressure. The expansion plan focuses on increasing production capacity and capabilities and the Group is also to enforce vertical integration and product and customer diversification and local sourcing strategy in India and Vietnam to a more complete manufacturing service. India government's "Make in India" program has speed up India in becoming the global manufacturing hub and it has opened the door to manufacturing investment by taking steps to boost local manufacturing and sourcing through tax benefits and incentives. Although the Group has big facilities in China, but taking into consideration of all factors, the Group has taken this opportunity to accelerate investment in the casing operation in India via moving some useful assets from China and making new capital expenditures on plant and machinery and equipment. The Group has generally suspended other capital expenditure on non-critical investments. The Company will continue to closely monitor the situation, and where it considers necessary, will implement further appropriate measures like carrying out rightsizing activities in China.

Because the situation has been bad in 2020, and the Group will closely monitor the future development of this segment and assess the impact of this segment on the Group's overall performance and cash flow.

Europe Segment

The recorded revenue of Europe segment in the current period was US$537 million when compared with the recorded revenue of US$1,106 million for the same period last year and the revenue of Europe segment decreased in the current period. Apart from the effect of the outbreak of COVID-19, the decrease of revenue is due to downsizing of the Group's business relating to Nokia-branded smart phones and the Group now basically only manufactures Nokia-branded feature phones. The recorded earning of this segment in the current period was US$15 million, when compared with the recorded earning of US$11 million for the same period last year and there was improvement in the ratio of earning to sales as less loss making Nokia-branded smart phones were sold.

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 of Nokia-branded phone business (excluding the impact to gross margin triggered by the discontinuance of phone distribution business) has been stable. But of course, margin erosion pressure is always there. COVID-19 affected Nokia-branded feature phone business as well. Component shortage and the price hike and long lead time are headaches.

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, core businesses include of sales of phones to a U.S. based Internet customer and provision of services including reverse logistics, repair and refurbishment of smart phone for OEMs and carriers and sales of mobile phones to U.S. customers by the Group's entities located in the U.S. and Mexico. The recorded revenue in the current period was US$507 million when compared with the recorded revenue of US$1,249 million for the same period last year and the year-on-year decrease came from the decrease of sales to a U.S. based Internet customer. Due to the COVID-19 pandemic starting from mid-March 2020 in the U.S., all smart phone retail stores and retail service channels have been facing shutdowns or closures, and the return service activities slowed down tremendously. New Product Introduction schedule has been pushing out due to business traveling restricted and global shortage of some key components. Market demand of mobile devices decreased when most of consumers "staying home" and "work from home" rather than mobility. Both sell through channels and reverse logistic activities of mobile phone business slowed down.

All Mexican businesses are from U.S. market. Due to business impact from COVID-19 in U.S. from mid-March 2020, both repair business and manufacturing business were impacted at Mexico operation. The recorded earnings for the current period were US$21 million when compared with the recorded earnings of US$59 million for the same period last year. The business impacts from COVID-19 still exist in third quarter and forth quarter in 2020 in USA. The recovery will gradually start from second quarter 2021 assuming vaccine rollout and distribute schedule on time. Foreseeing new market demand for 5G product will be getting stronger in 2021, both sell through channel and reverse logistics activities will back to normal. Global trading competition will be going on in 2021, and Mexico operation will take advantage when customers complying USMCA (United States-Mexico-Canada Agreement). Due to the increase of sales to the U.S. based Internet company and the change to the Group's Nokia-branded smart phone business strategy (and some more phones will be sold to the U.S.) in 2019, the performance of the America segment had a positive impact on the Group's overall performance in 2019. However, the situation has changed dramatically in 2020, and the Group will closely monitor the future development of this segment and assess the impact of this segment on the Group's overall performance and cash flow.

Peers

Apart from the Nokia-branded phone manufacturing business, the Group's casing and system assembly business also continued to face many tremendous challenges. Since 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. Although the competition pressure eased over the course of 2019, it came back in 2020 due to the COVID-19 pandemic, the restriction imposed by the U.S. to certain Chinese mobile brand company and the overall decline of the mobile phone market in China.

After considering the group's business and customer structure and other factors, there are some adjustments in the selection of its competitors and for better understanding, the peers' analysis is divided into casing business and EMS business. But it should be noted that the Group provides a one stop solution and manufactures both casing and system assembly together and sells complete handsets to some customers.

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 utilisation rate of CNC (Computer Numerical Control) machines, so the smart phone centric mechanical vendors were forced to adjust their product mix. As a skeleton of 5G smart phone, the structure, precision and processing method on metal mid frame is far more complex than traditional metal cases, and a higher average unit price was expected. Yet, in order to stimulate mobile phone sales during the pandemic, Chinese brand companies offer bargain 4G/5G entry phones which further damage the casing business profit in an already over-supply competition. In reality, most of our casing competitors have already extended their business to non-mobile phone products due to the saturation of China smartphone market and hiked operation cost. 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. Therefore, the Group will put effort to diversify its customer mix, product mix, and manufacturing location 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 mold manufacturing cycle time and cost effectiveness and efficiency of casing business.

For our peers of casing business, they are companies listed in the PRC or Hong Kong 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 extremely agile to follow up the latest technology and tendency, such as 3D glass, Glastic, ceramic casing and metallic device antenna molding, even utilising the idle automation equipment to produce healthcare and medical products which have made them become increasingly strong and competitive in all areas at a fast pace and their margins are in general better than the Group. Performance of our casing peers in 2020 are listed as follows:

i. Peer 1 is a Hong Kong listed company whose core businesses are acoustics and haptics optical applications. Its revenue, decreased 2% and gross profit margin and net profit margin decreased 5% and 6% respectively year-on-year in the first three quarters of 2020 due to the outbreak of COVID-19 significantly affected its operation and production utilisation and the postponement of clients' new products. According to its nine months results announcement, revenue from electromagnetic drives and precision mechanics business decreased 29% year-on-year in the third quarter of 2020, mainly due to a decline in product ASP and a decline in metal casing shipments. Regarding its 2020 full year performance, although the precision mechanics margin was affected by the pandemic, the x-axis haptic motors have been adopted by various high-tier Android models, showing a strong YoY growth momentum in shipment volume, which is expected to reach the range of 45–50 million units in 2020 and the company expected the industry demand for haptics upgrade remains strong. According to the estimation from a big investment banking report published on 16 November 2020, though handset lens shipments were up to 52 million in September 2020; however, the company's core business, metal middle frame, acoustics and haptics remain challenged, so the gross margin will continue to decline through 2022E and revenue forecast for 2020 was cut by 8%.

ii. Peer 2 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. In the first three quarters of 2020, its revenue increased by 9% year-on-year and its gross profit margin and net profit margin increased by 5% and 3% respectively year-on-year due to the improvement of utilisation rate and the smoothly climbing of the yield rate of new non-mobile phone projects starting from the second quarter of 2020. In order to diversify the risks of the single market and to increase the proportion of high margin products, the company continues to adjust its products focus to high margin non-mobile phone business, and now, the revenue contribution exceeded 50%. Based on the success of product mix adjustment, the management team expected the profit attributable to owners of the company will increase by 5–7 times year-on-year. In addition, according to a research report issued by CINDA Securities on 1 December 2020, the company has also developed new high-profit international customers, who have contributed more than half of its revenue.

iii. Peer 3 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 three quarters of 2020, its revenue decreased 1% year-on-year due to the epidemics in the first half of the year and the delay in the product upgrade of the company. Surprisingly, handset casings and high-precision components business accounted for the total turnover continued to increase in the first three quarters of 2020, due to the various high-precision components offerings such as Metal Injection Molding (MIM) parts, rubber molding, and precise injection parts for a series of new 5G smartphones launched by its customer. According to its first three quarters announcement published on 27 October 2020, the proportion of the sales of 3D and uni-body Glastic casings continues to increase and gradually replaces the previous version of 2.5D Glastic casings, which is expected to bring positive impact on the Group's gross profit.

iv. Peer 4 is a PRC listed company whose shares are listed in the Shenzhen Stock Exchange and its core business includes precision structural components, glass casing and touch display modules that mainly used in mobile phones, tablet computers, wearable products, notebook and other consumer electronic products. In the first three quarters of 2020, its revenue and net profit increased 40% and 222% respectively mainly due to abundant orders for various business segments. The company plans to raise funds through private placement, part of which will be invested in the construction project for mobile phone 3D curved surface glass casing production line which annual output is 20 million, at the same time, the company will accelerate the development of non-mobile phone products due to the fierce competition in the mobile phone industry according to its announcement issued on 9 November 2020.

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. Moreover, other external factors, including the U.S.-China trade tensions, geopolitics and protectionism, and the China smartphone's market saturation also affected the companies significantly in its OEM business. In response to these factors, some competitors in this industry aggressively established manufacturing capacities out of China and put more effort on other high-margin and high-growth businesses, even expand into new industries by leveraging their resources. 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, while currently there are only a few peers with existing overseas capacities or overseas capacities that are just being established, so the Group can utilise its existing capacities in India, Vietnam and other countries to capture first-mover advantages.

For our peers of EMS (Electronic Manufacturing Services) business listed in U.S., PRC and Hong Kong, as mentioned above, they have been exploring new business opportunities and expanding their product categories to improve the margins and to diversify the risk of high dependency on mobile phones or few customers. Performance of our EMS peers in 2020 are listed as follows:

i. Peer 1 is a Hong Kong listed company whose business includes EMS/ODM service for mobile devices, PC and IoT products, component design and manufacturing for a wide range of metal, glass, and ceramic, automotive electronics and medical equipment. The company's year-to-date revenue in the third quarter increased 34% year-on-year while the net profit increased 322% year-on-year. Its revenue from EMS/ODM and components still accounts for a large portion of total sales, but a downward trend can be observed as the rapid growth of other businesses. In the first three quarters, the booming growth revenue and margin was caused by the contribution of medical masks and the new product shipments to an American customer. The new business and customer effectively mitigated the impact on the decline of one of its major Chinese customer due to U.S. restriction.

ii. Peer 2 is a reputable U.S. listed company which is an 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. With that, the company's revenues are distributed evenly across different business. Its net sales decreased by 6.45% year-on-year but reported an increased profit with net income of US$690 million in 2020 (9.52% YoY). Although the production shutdown in China and reduced consumers' demand caused by the ongoing global COVID-19 pandemic resulted in the revenue drop, yet, the growing high-margin medical service, energy business and rebound demand in the second half year still give an impetus to its earning's growth.

iii. Peer 3 is a Shenzhen listed company having three business segments, EMS service for hard drive and consumer electronics, ODM service for automation and IoT products, and memory module assembly, packaging and testing. Its year-to-date revenue in the third quarter increased 5% year-on-year and the net profit increased 56% year-on-year. Due to the outbreak of pandemic, the demand of consumer electronics declined, while data center needs soared to drive its memory business growth and expects to see continued momentum. Besides, the margin growth was resulted from the escalating proportion of high-margin automation and IoT product business.

iv. Peer 4 is also a Shenzhen listed company whose main business is EMS service for consumer electronics, internet communication product and automotive electronics. The revenue of mobile devices account for approximately 80% of its total revenue in the first half of 2020. Its top three customers are the leading mobile phone brand company and two renowned ODM suppliers whose one of key clients is also the company's biggest brand customer mentioned above. In order to mitigate the high dependency on a single customer in a single region, the company expanded its manufacturing capacities in India in the third quarter of 2020 to make more effort to serve another customer who has high market share in India, the expansion led to its year-to-date net sales in the third quarter increase by 15% year-on-year; however, net profit decreased by 8% as a consequence of the low capacity utilisation. It is worth mentioning that the company has a higher average gross margin since its business model is manufacturing value added (MVA), not buy and sell.

v. Peer 5 is a Taiwan listed company who provides EMS service for personal computer (PC), server, smart devices and solar batteries. Its year-to-date revenue and net profit in the third quarter have 3% and 75% year-on-year growth respectively. The percentage of revenue for smart devices, inclusive of mobile phone, wearable devices etc., declined gradually. However, owing to work-from-home trend, the sales of server and education laptops jumped. Also, as China server companies cannot get U.S. IC chips due to U.S. restrictions, the company gained the server orders from China's customers. Because of two reasons above, despite the weak purchasing power caused by COVID-19, the overall revenue still increased slightly. The sharp rise in net margin resulted from gain on disposal of obsolete factories in Pudong, Shanghai in the first quarter.

In summary, due to lots of external influences, including global pandemic, political tensions, supply shortage and so on, most of our competitors have taken actions on changing their product/customer mix and overall business strategy. They gradually lowered dependency on mobile phone business and develop other sales engines to respond changes in market conditions. The Group have been closely monitoring the market movement and continuously optimising the capacity utilisation in China, India, Vietnam, strengthening our vertical integration ability, aggressively developing new products and services for various customers in the area of IoT/5G, automobile electronics, health electronics, etc.

Investments

On the basis that the value of each of the investments mentioned below as of 31 December 2020 is less than 5% of the Group's total assets as at 31 December 2020, the Company does not consider any such investment as a significant investment for the purposes of the Listing Rules.

The Group has continued to enhance its EMS businesses and explore new opportunities of 5G related application, V2X (Vehicle-to-Everything) and medical electronics to reinforce the Group's dominant position in the consumer electronics manufacturing industry 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 other 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 resulted to 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 its financial statements of 2018.

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, HMD switched its supply chain from a single vendor model to a multi-ODM set-up since the second quarter of 2019. Up to now, all of HMD's smart phone portfolio is manufactured by the new ODMs. In the feature phone segment, HMD is striving to add new functionalities to offer a 'smarter' experience to the consumers. As part of its commitment to provide the best possible technology across various price points, it is also driving cost competitiveness to move to a lower retail price point. Enhanced worldwide distribution coverage, and ongoing efforts to convert the existing smartphone consumer base, resulted in feature phone sales recovering strongly in the second half of the year. For the manufacturing side, the feature phone business continued to be managed with a focus on profitability, to maintain portfolio competitiveness, with the Group as the sole supplier.

Looking forward, HMD is optimistic that consumers look for Android phones that offer high level of security, software updates and upgrades. Mobile phone market has moved to a fast-paced and quick transition, making a new phone feel old in a very short time. At the same time products are more differentiated on software than hardware. New innovations in the industry will be more software led than before. 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.

Building on HMD's commitment to data and mobile security, the company established a dedicated software, security and services research and development unit called Centre of Excellence in Tampere, Finland. The centre forms part of the organisation's pledge to continuously improve and update device security, keep data safe and cover devices with warranty and insurance. This, and the company's ongoing commitment to offering three years of monthly security updates and two years of software upgrades, saw Nokia smartphones lead the 2020 trust rankings from Counterpoint Research for the second year running. The findings were based on scores in software and security updates, build quality and enterprise-recommended devices, and solidified HMD's offering to always provide a pure, secure and up-to-date Android user experience.

In the enterprise segment, the business has more than doubled its share in this category thanks to the comprehensive portfolio of Android Enterprise Recommended (AER) smartphones, delivering an elevated enterprise-grade smartphone experience across all price points. With a total of 20 AER smartphones, HMD is the smartphone provider of choice for many large companies. Since the start of 2019, the company has secured an average two new enterprise customers per week, with companies from the FTSE100, the Fortune 500, and DAX30 choosing Nokia phones as their preferred employee handsets.

In the third quarter of 2020, despite the challenges of unprecedented times, HMD closed out the first step of its Series A2 funding round which started from the first half of 2019 with an injection of US$230 million from its largest strategic partners. The investment further fuels HMD's strategic vision to make 5G smartphones accessible to consumers across the world, transition to digital-first offerings, expand its presence in key growth markets and help the business strengthen its leading position beyond just hardware and into a holistic mobile service provider. In August 2020, the Group purchased a US$38.3 million worth of HMD's convertible bonds (the payment of which was deemed to be made through outstanding receivables of an equivalent amount). During the course of the transaction, the evaluation by the management of the Company (covering, among other things, financial due diligence, independent valuation, etc.) of HMD'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 management of HMD and its other investors respectively (with the aim to securing more favourable terms for the Group to optimise the Group's return from its entire investment in HMD as a whole in the circumstances), were recorded and reported to the Board for its consideration. But cash position of HMD is still tight and the Group has been monitoring this. As at 31 December 2020, the convertible bonds were fully converted and currently, with the previous investments, the Group's total investment represented 14.38% of HMD's total issued shares.

With reference to the valuation carried out by independent professional valuers, the management has assessed the fair value of the investment in HMD as at 31 December 2020. The Group took corresponding adjustments to the fair value change for the Group's direct and indirect investment in HMD through other comprehensive income ("OCI"). 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 Investments

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 2020, Hike offered support for COVID-19 tracking as well as news updates feature in its existing Natasha chatbot to increase user stickiness. According to the company, there has been an increase of 33% in daily activity time spent in its app, and users spend an average of over 44 minutes per day. In June 2020, Hike launched a new social product called Hikeland the world's first mobile-first virtual world, a safe place for people to hang out online where great relationships can blossom around shared experience, witnessed significant traction during its testing phase, whereby selected users were spending an average of 50 minutes inside the virtual world according to the company. In the second half of 2020, Hike introduced ad-free Ludo-Game for users. Apart from this, it also rolled out full-body HikeMoji, an extension of the HikeMoji face. Though Hike has tried to provide various functions and monetise its users and platform in 2020, it would still need more time to continually grow its users and revenue size to reach an economics of scale. Based on the performance in 2020 and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in Hike as at 31 December 2020. The Group took corresponding adjustment to the fair value change in this investment.

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 Irvine, California 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. As at 31 December 2020, the Group has disposed of all its shares in Razer for enhancing the operating efficiency of the assets and the Group would enlarge the investment strength in its target fields thereafter.

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 decided to dispose of its interests in CEx in 2019 and 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. The Group has received the last installment of the consideration by the beginning of 2021 and no longer a shareholder of CEx.

The Group invested US$1 million in CloudMinds Inc. ("CloudMinds"), an operator of cloud-based AI robots in China in 2015. The company has filed an IPO application with the U.S. SEC (Securities and Exchange Commission) in December 2019. Due to the impact of COVID-19, global economic downfall, and sanction imposed by U.S. Department of Commerce, Bureau of Industry and Security (BIS), the company decided to refocus on the Chinese market and aiming at IPO there and has started a new round of financing to enhance its technology development and financial status starting from the end of 2020. In November, as the world's first cloud robot operator, CloudMinds successfully won the bid of "5G Multifunctional Robot Rapid Implementation Service" of China Mobile's subsidiary, this RMB270 million contract will provide China Mobile with thousands of service robots. In December 2020, CloudMinds had officially released HARIX OS, a cloud robot operating system, which is the first robot-oriented operating system in the world after windows, Android and IOS. The company has tightened its expense in 2020 in order to get through COVID-19 crisis but will keep expanding its customers and products in the upcoming year. Based on the performance in 2020 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 2020. The Group took corresponding adjustment to the fair value change in this investment. As at 31 December 2020, 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. Due to the rapid market change, Liangjin's business model is eliminated by mainstream competitors, their current business is completely stagnant and exists tremendous uncertainty. According to the announcement published on 30 June 2020, its shares are suspended from trading since 6 May 2020 with the possibility to be delisted as Liangjin failed to disclose its 2019 annual report. On 29 October 2020, Liangjin is delisted from the PRC's National Equities Exchange and Quotations since it failed to provide any materials to supervisory authority. Considering Liangjin's performance and the liquidity of its shares, the Group took corresponding adjustment to the fair value change in this investment already. As at 31 December 2020, the Group's investment represented 4.41% of Liangjin's total issued shares.

Founded in 2014, Augentix Inc. ("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 accelerators. 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, and helped one of its customers won the 2020 CES Innovation Award. With its emerging new SoC platform available in 2021, Augentix is expected to provide broader AI applications in car dash camera, ADAS, and robots. The Group invested around US$0.7 million in Augentix by subscribing Augentix's convertible note in December 2019 and the note has been fully converted to common shares in November 2020. Through this investment, the Group expects a deeper collaboration with Augentix to further develop in IoT and V2X industry. As at 31 December 2020, the Group holds 2.45% of Augentix on the fully diluted basis.

The Group made a strategic investment of around US$1 million in Ossia Inc. ("Ossia") in June 2020. Ossia, the creators of Cota® Real Wireless Power™ redefines wireless power by safely delivering targeted energy to multiple devices simultaneously at a distance. Ossia's Cota technology is a patented smart antenna technology that automatically keeps multiple devices charged without any user intervention and enables an efficient and truly wire-free, powered-up world that is always on and always connected. Ossia is a fabless technology licensing company. Ossia is headquartered in Bellevue, Washington. The Group will be a preferred partner and contract manufacturer for Ossia's customers wanting to build or integrate Cota wireless power into their devices, sensors, automotive applications and IoT products. In August 2020, Ossia received a strategic investment from ENEOS group, the top ten largest companies in Japan which focus on petroleum, metal, oil and gas exploration.

In 2012, the Group set up a joint venture, Ways Transworld Inc. ("Ways Transworld"), with Ways Technical Corp., Ltd ("Ways Technical") (3508.TW). However, due to the rapid market, product, technology and customer preference change, mobile phone casing has adopted metal, glass and ceramic solutions and plastic is no longer a preferred material for it. Defeated by the market tendency, Ways Transworld has continued to make loss since 2014 even with the Group's efforts to improve. In June 2020, for enhancing the operating efficiency of the assets, the Group and Ways Technical came to an agreement to liquidate Ways Transworld. As at 31 December 2020, the residual capitals were distributed.

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 automobile fields, and a high-end Android smart phone company led by a group of experienced experts in the mobile industry.

As at 31 December 2020, the fair value of the Group's equity investments designated as FVTOCI was US$206 million, which represented 3.4% 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 2020, 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 respective management teams of those 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 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, though at this stage, the Group does not currently have any plan for a significant investment contemplated by the Listing Rules.

As the mobile phone market has become a mature market with less gained traction, the Group continually seeks the investment opportunities in other industry with huge potentials, including automobile, healthcare and so forth. Along with the 5G booming, the ACES trends (autonomous driving, connected vehicles, the electrification of the powertrain, and shared mobility) are mutually accelerating revolution in the automobile industry, and McKinsey (a management consulting firm) predicts that automotive E/E (electrical and electronic components) and software market will grow at a CAGR (Compound Annual Growth Rate) of 7% to reach US$469 billion by 2030. Besides, due to the aging population and the sprouting of health awareness, healthcare has become an unignorable issue, according to BMI (a research firm), global medical device market is expected to grow at a CAGR of 5.6% to reach US$475 billion by 2022. Hence, the Group's investment strategies will be adjusted to be more focused on 5G, IoV (Internet of Vehicle), medical electronics and AI, which include 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 2021.

There had been no material acquisitions and disposals of the Group's subsidiaries, associates and joint ventures for the current period. For the sake of completeness, during the current period, to simplify its corporate structures and to reduce on-going administrative burden and costs, the Group closed down certain of its non-operating subsidiaries (comprising mostly investment-holding entities) where the aggregate value of such subsidiaries' respective total assets, profits or revenue (or consolidated total assets, profits or revenue, as the case may be) represents less than 5% under any of the applicable percentage ratios defined in the Listing Rules.

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:

- *PRC*

  As to the PRC's governmental supporting policies to cushion the economic hit caused by the COVID-19 outbreak and its evolution as a pandemic and on-going developments, please refer to pages 67 to 69 of the Company's 2020 interim report as issued and published on 7 September 2020. In particular, the Company's subsidiaries in Mainland China were eligible for and applied for several relief packages supported by the Mainland Chinese government in response to COVID-19, and the majority of such relief packages has been collected.

  In relation to the PRC Civil Code which took effect on 1 January 2021 (Civil Code), please refer to the background and previous developments as described in page 69 of the Company's 2020 interim report as issued and published on 7 September 2020. The Group's PRC subsidiaries have reviewed the applicable legislative changes consequential to the implementation of the Civil Code in the context of their respective current business, legal or compliance models and practices, and have devised and implemented appropriate corporate initiatives and actions in respect of such legislative changes, including without limitation: (i) enhancing their practice of signing and record-managing written contracts in electronic forms via electronic means; (ii) enhancing the protection of confidential information in addition to trade secrets; (iii) when executing any letter of intent, memorandum of understanding or similar document, requiring the explicit and clear stipulation of its binding or non-binding effect, and if binding, the legal obligations and consequences in the event of non-observance; (iv) monitoring and assessing the developments in the application of civil law principles and rules which might be of interest to the Group's PRC subsidiaries such as "change of circumstances due to a force majeure event", "third-party creditor's rights" and "joint and several liabilities as a third party entering into a creditor-debtor relationship", "taking or transfer of collaterals without pledgee's prior consent and without affecting pledgee's rights therein", etc.; and (v) tightening up the control of product quality in view of the heightened regulation of product recall and liability. The Group's PRC subsidiaries will continue to monitor and assess the implementation and effectiveness of such corporate initiatives and actions, and where they consider necessary, will implement further appropriate corporate initiatives and actions.

For value-added tax (VAT), please refer to the background and previous developments as described in page 70 of the Company's 2020 interim report as issued and published on 7 September 2020. At this stage, the draft Value-Added Tax Law (consultation draft) (Draft VAT Law) is still pending the approval of the National People's Congress, and the Group's PRC subsidiaries will continue to monitor the legislation process of the VAT regime and assess the potential impacts of the Draft VAT Law on their operations in anticipation of its enactment.

In respect of the PRC Foreign Investment Law which took effect on 1 January 2020 (FIL), please refer to the background and previous developments as described in page 70 of the Company's 2020 interim report as issued and published on 7 September 2020. In particular, the governance structures and constituent constitutional documents of the Group's PRC subsidiaries being foreign-invested entities (Group FIEs) shall be adjusted to accommodate the corresponding requirements under the PRC Company Law, which may imply additional costs of regulatory compliance. During the 5-year transition period from 1 January 2020 to 31 December 2024 under the FIL for the Group FIEs to conform with the PRC Company Law, the Group FIEs will continue to assess the FIL's impacts on their operations and then devise and implement appropriate corporate initiatives and actions.

Moreover, the Regulation (Payment Regulation) on Ensuring Payments to Small and Medium-Sized Enterprises (SMEs) was promulgated by the State Council of the PRC on 5 July 2020 and came into force on 1 September 2020. The Payment Regulation stipulates (among other things) that government agencies, public institutions and large-sized enterprises are required to pay overdue interests for refusing or delaying payments due to SMEs; if the interest rate on overdue payment is agreed upon in a contract, it shall not be lower than the one-year loan prime rate as at the contract date; absent such agreement, the interest for overdue payment would be calculated at the 0.05% daily interest rate. The Group's PRC subsidiaries have been paying attention to the Payment Regulation by assessing the possible classification of a counterparty as a SME under the Payment Regulation and also agreeing to appropriate contractual default interest provisions with such counterparty in order to avoid potential additional interest cost for overdue payments to SMEs at the 0.05% daily interest rate.

From environmental, social and governance perspectives, the Standing Committee of the National People's Congress of the PRC amended the Law on the Prevention and Control of Environmental Pollution Caused by Solid Waste (Revised Solid Waste Law) on 29 April 2020, which became effective on 1 September 2020. The Revised Solid Waste Law basically places industrial solid waste and hazardous waste among other categories of solid waste under a stricter management system and imposes more stringent penalties on offenders. The Group's existing waste management policies and practices in the PRC are in line with the heightened legal requirements, and it follows that the Group has strictly complied with the applicable requirements laid down by the Revised Solid Waste Law.

- *India*

  Further to the Union Budget of India for 2020–2021 (please refer to page 70 of the Company's 2020 interim report as issued and published on 7 September 2020), on 1 February 2021, the Union Budget of India for 2021–2022 was presented, whereby the following key direct tax changes were introduced:

  - No tax deduction will be allowed in case of delay in deposit of employee's contribution to Indian social security account. Accordingly, the Group's Indian subsidiaries should continue to monitor and ensure timely deposit of their employee's contributions to Indian social security accounts to avoid potential tax losses.

  - With effect from 1 July 2021, a buyer of goods shall deduct tax on payments made to resident sellers in excess of INR 5 million at the rate of 0.1% (5% in case of a seller with no PAN (Permanent Account Number being a ten-character alphanumeric identifier issued by the Indian Income Tax Department)/ Aadhaar (a 12-digit unique identity number of an Indian resident or passport holder)), provided that the buyer's turnover has exceeded INR 100 million during the financial year (FY) immediately preceding the FY in which the goods are purchased. Where TDS (Tax Deducted at Source)/TCS (Tax Collected at Source) is required to be deducted/collected under any other provisions of the Income-tax Act, 1961, then this section shall not apply (except for a transaction where TCS under section 206C(1H) is also applicable to a seller for sale of goods of value exceeding INR 5 million to one single buyer in a FY, in which case only TDS under this section shall apply). Following its implementation, even though the TDS withheld by the buyer could be taken as income tax credit for the seller, it shall be directly paid by the buyer to the Indian treasury, which will affect the seller's use of current funds and hence cash flows to that extent. Thus the Group's Indian subsidiaries should take the interest cost of their funds so withheld into consideration while negotiating with customers.

- With effect from 1 April 2021, the Indian government would be empowered to notify a new faceless scheme for the purposes of disposal of appeals by the India's ITAT (Income Tax Appellate Tribunal) in a faceless manner. If any Indian subsidiary of the Group is involved in any proceedings which are pending at ITAT, it is expected that this amendment will reduce the costs of the Group's Indian subsidiary and also increase transparency in disposal of such proceedings. Further, the time limit for re-opening of an assessment is being reduced to 3 years from the current 6 years from the end of the relevant assessment year, and re-opening up to 10 years is proposed to be allowed only if there is evidence of undisclosed income of INR 5 million or more for an assessment year.

In addition to direct tax changes, the following indirect tax changes were introduced by the Union Budget of India for 2021–2022:

- Removal of mandatory requirement of furnishing annual reconciliation statement by certified professionals. Accordingly, annual returns may contain such details to be submitted on a self-certification basis. It will reduce the compliance burden and costs of the Group's Indian subsidiaries, particularly saving the professional costs otherwise incurred in connection therewith.

- Further increase in applicable BCD (Basic Customs Duty). Please refer to the previous developments as described in page 71 of the Company's 2020 interim report as issued and published on 7 September 2020. The BCD rates on inputs for manufacture of key components of mobile phones will be further increased. For example, the BCD rate on inputs such as parts or sub-parts for manufacture of specified parts of mobile phones including PCBA (Printed Circuit Board Assembly), camera modules, connectors, etc. will be increased from 0% to 2.5% with effect from 1 April 2021; the BCD rate on PCBA and moulded plastic for manufacture of charger or adapter will be increased from 10% to 15% with effect from 2 February 2021; and the BCD rate on specified insulated wires and cables will be increased from 7.5% to 10% with effect from 2 February 2021. Further increase in the BCD rates on a majority of the subject products is aimed towards encouraging more local manufacturing. With the hike of BCD for some key components involved in their handset production and manufacturing activities, on the one hand, it has significantly increased the operational costs of the Group's Indian subsidiaries, though they could pass some of such extra costs to their customers, thus minimising the associated impacts on their performance. On the other hand, as the Group's Indian subsidiaries have some capacity of making some key components for handsets in India, it will enhance their competitiveness in the local market.

In relation to the Production Linked Incentive (PLI) Scheme for Large Scale Electronics Manufacturing, please refer to the background as described in page 71 of the Company's 2020 interim report as issued and published on 7 September 2020. The Group's Indian subsidiary has successfully obtained the conditional PLI Scheme approval from the competent authority, thereby being eligible to claim the incentives provided under the PLI Scheme once the applicable conditions are fulfilled. In that case, the Group's Indian subsidiary by developing adequate infrastructure, skill development, etc. and receiving incentives could reduce its operational costs, enhance its competitiveness in the local market and enable a level-playing field with competing countries.

In order to provide further flexibility to foreign investments into Indian companies, on 1 July 2020, the Indian government extended tax on interest on foreign loans at concessional rate of 5% till 1 July 2023. It would be beneficial to the financial conditions of the Group's Indian subsidiaries and ultimately the Group as a whole if the Group's Indian subsidiaries borrow money from overseas (e.g. shareholder's loans from their holding companies within the Group), as they could withhold lower interest tax and reduce associated costs accordingly.

- *Vietnam*

  Vietnam-European Union (EU) Free Trade Agreement (EVFTA) came into effect on 1 August 2020. Accordingly, both parties (Vietnam and EU) have enjoyed zero import/export tax in a certain period since then. This helps improve the competitiveness of products exported by Vietnam, and reduce significantly import taxes for materials, supplies, etc. imported from EU. So long as the Group's Vietnamese subsidiary could meet the relevant requirements (such as country of origin) laid down by the EVFTA, it could enjoy the relevant benefits and advantages offered under the EVFTA.

  In addition, 15 Asian-Pacific countries, including the PRC, Japan, South Korea and ASEAN (Association of Southeast Asian Nations), reached a free trade agreement known as the Regional Comprehensive Economic Partnership (RCEP) in November 2020 at a virtual ASEAN Summit hosted by Vietnam, which agreement is yet to become effective. Pursuant to the RCEP which covers the biggest trade bloc in history, it is promised to eliminate about 90% of the tariffs on imports among its signatory members gradually. As Vietnam is one of the RCEP signatory members, the Group's Vietnamese subsidiary will enjoy the relevant benefits and advantages to be offered under the RCEP, particularly when it will help reduce tariff burden on the Group's Vietnamese subsidiary and its customers and hence increase the competitiveness of its "Made-In-Vietnam" products.

  On 5 November 2020, the Vietnamese government issued the Decree No.132/2020/ND-CP prescribing tax administration for enterprises having related-party transactions transfer pricing, in which the arm's length range is now defined to be from the 35th percentile to the 75th percentile, and specifically, the lower threshold has increased from the 25th percentile (as prescribed by the superseded Decree No.20/2017) to the 35th percentile. Vietnam's tax authority nowadays more and more focuses on tax audit of related-party transactions. Accordingly, the Group's Vietnamese subsidiary has devised and implemented appropriate measures in response to the above legislative changes, including without limitation reviewing, adjusting and updating applicable benchmarking analyses regularly to make sure that the profit margin from the relevant transaction should fall within the new arm's length range.

  In light of the COVID-19 outbreak and its evolution as a pandemic and on-going developments, the Vietnamese government has issued several policies to support enterprises during the economic downturn, including without limitation extension of tax payment deadlines, extension of land-use fee payment deadlines, restructuring debt payments' due dates, reduction or waiver of interest payments, etc. In particular, according to the Circular No. 112/2020/TT-BTC, 29 categories of governmental fees and charges have been subject to a reduction ranging from 50% to 90% for the period from 1 January 2021 to 30 June 2021 (both dates inclusive). Some of the governmental fees and charges that are relevant to the Group's Vietnamese subsidiary and its business operations in Vietnam have been subject to the 50% reduction, including without limitation industrial property fees, certain fees relating to intellectual property registration, fees for inspection of fire safety equipment, fees for appraisal and approval of fire safety designs, etc.

  Moreover, for the sake of completeness, some important Vietnamese laws and regulations took effect from 1 January 2021, including without limitation the Law on Investment 2020, the Law on Enterprise 2020 and the Labour Code 2019. In particular, certain significant changes under the Labour Code 2019 include (among other things) the retirement age of Vietnamese employees in normal working conditions will be increased periodically and reach 62 by 2028 (for male employees) and 60 by 2035 (for female employees); the total overtime working hours of an employee shall not exceed 40 hours per month. Important changes introduced by the Law on Enterprise 2020 include (among other things) elimination of certain licensing procedures; revised provisions on pre-incorporation contracts; time limit for making capital contribution in kind. Regarding the Law on Investment 2020, a foreign-invested-equivalent company now requires for 50% of foreign shares only (previously 51%). In addition, the procedure to obtain the requisite governmental approval is simplified, and the list of conditional businesses subject to governmental restrictions has been revised and expanded. The Group's Vietnamese subsidiary has been assessing the above legislative changes and their respective impacts on its operations in Vietnam, and where it considers necessary, will devise and implement appropriate corporate initiatives and actions in response to any such legislative changes.

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, apart from the above, please refer to the Company's separate 2020 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

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

Liquidity and Financial Resources

The Group's capital resources consist of cash principally provided by operating activities and bank credit facilities. The Group regularly reviews the borrowing capacity and makes necessary adjustments for changes in money market and economic conditions and changes in our working capital requirements. The Group centrally manages the funding and treasury activities in accordance with corporate policies, and the main objectives are to ensure appropriate levels of liquidity, to have funds available for working capital or other investments at reasonable costs which are required to grow the business, to maintain a healthy capital structure, and to balance the exposures to market risks.

As at 31 December 2020, the Group had a cash balance of US$1,779 million (31 December 2019: US$1,545 million). Free cash flow, representing the net cash used in operating activities of US$89 million (31 December 2019: net cash from operating activities of US$754 million) minus capital expenditure of US$102 million (31 December 2019: US$210 million), was US$191 million outflows (31 December 2019: US$544 million inflows). 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$929 million (31 December 2019: US$606 million) over total assets of US$6,032 million (31 December 2019: US$7,003 million), was 15.40% (31 December 2019: 8.65%). All of the external borrowings were denominated in USD and INR (31 December 2019: USD and INR). 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 0.72% to 5.90% (31 December 2019: fixed rate ranging from 2.14% to 7.85%) per annum with an original maturity of one to two months (31 December 2019: one to six months).

As at 31 December 2020, 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$89 million.

Net cash used in investing activities during the current period was US$12 million, of which, mainly, US$102 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$3 million represented withdrawal of bank deposits, US$356 million represented purchase of short-term investments, US$4 million represented proceeds from disposal of property, plant and equipment, US$431 million represented proceeds from settlements of short-term investments, US$1 million represented proceeds from disposal of investment property, US$5 million represented proceeds from disposal of equity instruments at fair value through profit or loss, US$1 million represented proceeds from disposal of land use right classified as right-of-use assets and US$2 million represented distribution from a joint venture upon liquidation.

Net cash from financing activities during the current period was US$279 million, primarily due to net increase in bank borrowings of US$323 million, interest paid on bank borrowings of US$12 million, interest paid on lease liabilities of US$1 million, repayment of lease liabilities of US$21 million and payments on repurchase of ordinary shares of US$10 million.

Exposures to Currency Risks and Related Hedges

Since the COVID-19 outbreak in early 2020, central banks globally had adopted monetary easing policy to stabilise the economy. US$ has been weakened against all major currencies. 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 two 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. During the second half of 2019, the Group modified the currency settlement mechanism business model with its customers for India business, and therefore the exposure to INR was kept managing down in 2020.

Capital Commitments

As at 31 December 2020, the capital commitments of the Group were US$67.7 million (31 December 2019: US$11.1 million). Usually, the capital commitments will be funded by cash generated from operations.

Pledge/Charge of Assets

There was no pledge nor charge of the Group's assets as at 31 December 2020 and 31 December 2019.

Contingent Liability

There was no material contingent liability for the Group as at 31 December 2020 and 31 December 2019.

Donations

The Group has, in the financial year ended 31 December 2020, made donations for charitable or other purposes to a total amount of approximately US$19,000.

Outlook

Market and Industry Review and Challenges

The OEM refers to the one who undertakes the production and processing tasks outsourced by another company with "key core technology" of the products. The OEM model is common in the electronics industry and has become an inevitable choice for the brand manufacturers for its cost structure. Due to the rapid development of the IT industry and the continuous acceleration of product updates, it is not ideal to cover all product lines through its own production with outsourcing production becoming more attractive for cost saving purposes. OEM manufacturers generally have the advantage of large-scale production. Especially for materials procurement and production quality control in large-scale production and manufacturing, OEMs have breadth of experience, which can effectively reduce production costs and achieve economies of scale. However, just as the electronics industry, the entry barrier for OEM industry is very low and its profit margin is limited, so when the gross margin profit of the market declines, only those with a large scale of production can survive. Due to the competitive environments, OEMs willingly reduce their profit margins in order to secure the contracting relationships with major brand manufacturers to meet their capacity. Especially, as China's economy is opening up, China has attracted low-end and favorable investment conditions. As China has taken over the low-end manufacturing chain, the competition of the industry has been intensified, further reducing the profit margin of OEMs. This is why the Group has kept monitoring the current economic environment and market landscape and its potential impact on both the general economy and consumption power and preferences of customers we served as well as our end markets and closely manage and control our costs and capital resources so that the Group we can respond in a quick manner as circumstances change. As many of our costs and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for a product that represents a significant amount of revenue, can harm our gross profit margins and results of operations.

As the Group mainly deploys its manufacturing facilities in China, the OEM industry in China has a direct impact on the Group's business. Since the reform and opening up, China has attracted significant foreign investments due to factors such as low labour costs, preferential land use and favorable investment conditions. Chinese OEMs have emerged as the low-end industrial chain, taking over the demands and achieving impressive results. "Made in China" was once meant to be cheap manufacturing, but a significant decline in gross profit margin, an increase in raw materials and labour costs of OEM companies, the intensification of industry competition, the enhancement of the market power of alternatives and the enhancement of the bargaining power of the client and consumers have made the sustainable development of OEM companies a challenging task. In fact, going after the cheap manufacturing cost in China is no longer a favorable option, according to the National Bureau of Statistics of China, the average yearly wage in China has increased 24% from 2015 to 2019. Moreover, employer social insurance and housing fund obligations add an additional 37.25% to an employee's salary on average. On top of the increased average wage, China's employed population declined for the first time ever in 2018. As China has planned to move upward on the value chain and invest in the innovation and service sector, many foreign-invested enterprises have chosen to close their China factories and moved to the emerging countries such as India or Vietnam where the Group has already had its footprints on.

Regarding the outlook of the Group's business and performance, the global general economy, development of COVID-19, handset market, geo-economic risks, political risks, consumer behaviors, product, technology change and OEM/ODM industry and competition landscape, need to be considered. As mentioned above, global smartphone shipments have already declined for four consecutive years, especially with the widespread of COVID-19 pandemic which offsets the anticipated growth from 5G adoption and causes both supply chain disruptions and demand slump. Recent study from IDC estimates smartphone shipments to decline dramatically to 1.29 billion in 2020, down 5.9% from the 1.37 billion units shipped in 2019, especially with the 14.68% largest decline ever took place in China smartphone market and the 13.19% decline in U.S. market in the first three quarters of 2020. While the initial supply side problem led to a decline, this has evolved into plummeting demand as the global toll of COVID-19, national lockdowns and growing unemployment lead to a slowdown of consumer spending and a change in consumption pattern. However, since the economic activity has shown a recovery in the third quarter 2020 and forth quarter 2020 holiday season, shipments are expected to rebound and the global market will experience a less significant negative growth in 2020. Geographically, despite the initial impact in China, the resulting restoration in production capacity and alleviation of supply chain disruption, as well as market opening, the Chinese domestic market saw a much better than expected single-digit decline in 2020. IDC also estimated that Asia pacific will continue to play the important role in the worldwide smartphone market from 2020 to 2024 because of its sheer size, replacement rates and availability of low-cost smartphones in growing nations. By the end of 2024, Asia pacific is expected to account for 52.8% of all smartphone shipments worldwide, in which a 25.3% of the worldwide total coming from China and Central and Eastern Europe, as well as the Middle East and Africa, will show a 5-years CAGR of 0.94%. In addition, North America and Latin America will combine for 20.4% of the smartphone volume at the end of 2024.

Regarding OEM/ODM industry situations, due to the saturated smartphone market and shrinking demand caused by the severe COVID-19 pandemic, competition among Chinese vendors will become fiercer. The downfall of mobile phone demand and oversupply in 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 the 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.

According to the analysis published by the IDC, mobile phone brand companies have already moved more aggressively with their 5G portfolios both in terms of production and price points. IDC forecasts the total 5G mobile phone will grow from approximately 240 million in 2020 to 840 million in 2024 at a compound annual growth rate (CAGR) of 36.81%. In order to overcome the impact of COVID-19 and offer consumer an affordable replacement 5G phone, in 2020, 5G ASPs declined over 50% in the second quarter, 47% in the third quarter, and are projected to drop 5.5% in the fourth quarter. Chinese mobile phone brands are offering 5G ASPs at half of cost of non-Chinese mobile brands. Such low price and aggressive launch of new products created the greatest penetration country of 5G smartphones in the world. According to the data published by CAICT, in 2020, the 5G smartphone shipments account for 52.85% of total shipment, compared to around 10% in U.S. and Western Europe. Frankly, among the total global 5G shipments shipped since the first 5G model released, 77.12% of 5G mobile phones were shipped into China. Besides, from the IDC perspective, the mid-tier market will become a crucial battle ground to win over consumers looking to grab a 5G device as the specifications and price point cross over current 4G.

Echoing the IDC's report, the leading chipmaker — Qualcomm's financial results, showed its chips sales grew strongly, propelled by 79% and 157% year-over-year growth in handset chips and RF front-end chips in the fourth quarter of 2020 respectively. The strong growth of RF front-end chips used for 5G in conjunction with Qualcomm's modems sees surging demand for 5G devices and the application has jumped as a strategically important segment. "Huawei shedding so much share provides a big opportunity for us to grow," Qualcomm CEO Steve Mollenkopf said. "The addressable market has grown, so that'll start to be a bit of a tailwind for us as we get supply and have the ability to go after it." The chip demand is far exceeding supply right now resulted from U.S. restrictions and limited capacity squeezed by other electronic products demands, however, the market expects to be normalised over the next several quarters. Qualcomm expects high-single-digit growth in phones shipped in 2021, with between 450 million and 550 million 5G handsets.

In addition to the impact of COVID-19, 5G development, rapid technology advancements, and shifts in customer preference and consumption patterns in the mobile phone industry, recent geo- economic risks will also have a significant influence on this market. Geo-economic tensions have escalated over the last couple of years since U.S. President Trump introduced tariffs on US$60 billion worth of Chinese goods. On 22 March 2018 to make changes to what the U.S. said was "unfair trade practices", 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. In addition to this, 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. The elected U.S. president, Joe Biden, took office officially on 20 January 2021. Although his China policies have not come out clearly yet, he already obscurely delivered his attitude toward U.S.-China relationship. In the aspect of tariff imposed on China as mentioned above, the Biden administration announced they will keep the tariffs in place but will evaluate how to proceed after a thorough review. "We have maintained the tariffs that were laid down over the course of the past few years, not because we think that trade war was particularly successful, but rather because we believe that we have to very carefully, in consultation with allies and partners, in consultation with the Congress, work through the sources of leverage we have," the senior official said, after Biden spoke with China's President Xi Jinping at the first time since Biden took office, according to CNN news. Also, U.S. will collaborate with its allies to combat China and prevent the power country's influences grow further, even undermine U.S. position in the global market. Although the Biden administration still seeks to maintain a tough stance on China, they plan to move away from former President Donald Trump's pugilistic relationship with Beijing. Even though the new president is proceeding to return to multilateralism and establish normal diplomatic relations, there was minimal expectation that the trade war would be resolved in a short period according to Biden's attitude so far.

Growing tensions between the U.S. and China and the pandemic, coupled with the resulting restrictions, have renewed and intensified calls in the U.S. and other countries for reducing dependence on China. While this sentiment and action is not expected to lead to decoupling or a major immediate shift, the pandemic is expected to increase the speed of relocation of lower-value manufacturing. According to Anwita Basu, head of Asia country risk research at Fitch Solutions published in Bloomberg, "Many companies have already begun adopting a 'China plus one' manufacturing hub strategy since the U.S.-China trade war began in 2018, with Vietnam having been a clear beneficiary". This trend may persist due to the currently observed bipartisan support in the U.S. for a tougher approach to China, increasing the possibility of the trade war intensifying in the future. Besides, the saturated China mobile phones market is another key factor to accelerate the process of manufacturing moving away from China to other countries. The continuous decline in the Chinese market in the past few years led to a decline in the overall growth of some key Chinese brands. These brands have been investing in countries outside China to offset the weak demand in the domestic market. Amid further escalation of the trade war, companies have increasingly hedged against risks of tariffs by establishing operations and markets outside of China for their overseas business. 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 continued to expand its capacity and capability there to meet its customers' needs. Through the localisation of raw materials, the Group is further reducing the cost and improving the quality and capacity of its Vietnam facility to better serve its customers in the future.

The U.S. Department of Commerce fired the first shot to disrupt the smartphone industry by placing Huawei Technologies Co. Ltd. ("Huawei") and its affiliates on its "entity list", which prohibits it from buying, selling or using anything from technology to components from U.S. firms on 16 May 2019. On 13 May 2020, President Trump re-signed the executive order, continuing its effectiveness for 1 year, until 15 May 2021. Two days later, the U.S. Department of Commerce announced the 6th extension of the Temporary General License (TGL) authorisations for Huawei Technologies Co. Ltd. and its non-U.S. affiliates (Huawei) on the Entity List for the other 90 days. However, on the exact same date, The Bureau of Industry and Security (BIS) announced plans to protect U.S. national security and issued an amended longstanding foreign-produced direct product rule and the Entity List to narrowly and strategically target Huawei's acquisition of semiconductors that are the direct product of certain U.S. software and technology. Not limited to Huawei's smartphone, after the U.S. introduced new sanctions on Huawei, President Trump also called for every country to ban their mobile providers from buying Huawei's 5G equipment and several countries including Australia, Japan, Canada, India, and some European countries successively announced that they will prohibit carriers from using Huawei's 5G network. The U.K.'s National Cyber Security Center (NCSC), which is part of the intelligence agency under Government Communications Headquarters (GCHQ) , launched an emergency review of Huawei's role in the U.K. on 24 May 2020 and recently, on 14 July 2020, the U.K.'s Digital Secretary officially asked the telecom providers to remove all Chinese firms' 5G kit from their networks by 2027. A series of restrictions took effect in various countries, which together with the lack of Google Mobile Services (GMS) has had a significant impact on Huawei's business outside of China. The IDC's data on Global shipment excluding China showed that Huawei has faced successive quarters with a decline of shipment. Despite this, it is worth noting that according to IDC data, Huawei reached the largest smartphone shipments in the global market in the second quarter of 2020 because of its early resumption in China after the controlled pandemic situation which helped the Company to recover its lost ground faster than its competitors. However, its smartphone shipments consequently plunged 22% in the three months ended September to 51.9 million units, causing it to fall to second place on the top smartphone vendor list for the quarter. In the last quarter of 2020, Huawei only shipped 32.3 million smartphones, a 42.2% year-on-year drop, and moved down to last position of global top 5 smartphone vendor list. According to a Trendforce report, it is estimated that through Huawei's stockpiling chip inventories, the company is expected to ship only 45 million smartphones in 2021, falling to seventh among global vendors. To ensure its survival and avoid U.S. sanction, Huawei has sold its popular sub-brand, HONOR, which was initially created in 2013 to attract young and price-sensitive buyers at far more attractive price points than Huawei's premium consumer offerings, and has consistently made up about 25% of Huawei quarterly shipments. The new owner of the Honor brand is a Chinese-based company with shareholders of a consortium of over 30 agents and dealers, as per a joint statement signed by 40 companies involved in the purchase. According to a report by a Chinese media, the state-backed Shenzhen Smart City Technology Development Group is also involved in the purchase. As the development of the new company, as mentioned above, the Group has been engaged in discussion of developing a series of new smartphones.

In parallel with the above market perspective, it is important to view the product perspective. From product perspective, with the popularity of innovation and technology, the smartphone industry has become commoditised and highly homogenised with standardised specifications leading to increased market competition as the industry became more fragmented with the modular industry structure reducing entry barriers. The smartphone has matured as an application, driving innovation in design and features and appearances. IDC announced a feature prediction towards China's smartphone 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. In addition, recent innovations similar to the foldable phones might grab more consumers' attention despite only a handful of brands having entered this field. The second-generation foldable devices have given an optimistic outlook to the industry with improvements shown over the first-generation models, including quality improvements, increased performance, and a slimmer footprint. Bigger screens and multi-cameras will also continue to be popular across all the regions. Furthermore, the average unit price of the overall smartphone is expected to reach US$349 in 2021 and US$321 in 2024, with a slight decrease at a CAGR of 0.8% for 2019–2024.

As the smartphone 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 a slowdown in new customer acquisition with rapidly growing smartphone 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 customer mix, potentially leading to margin pressure, 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 (which is core competence of the Group) and cultivates global research talents to secure the competency and is continuously engaged in product research and design activities to manufacture its customers' products in the most cost-effective and consistent manner, with a focus on assisting its customers with product creation, development and manufacturing solutions and further strengthened competences.

Due to the ever-intensifying competition in the smartphone industry, companies are spending more on research and development. For smartphone makers, the scope of differentiation has been reduced due to each company aggressively investing in research and development. While on the one hand, this helps the companies grow the popularity of their smartphone models, on the other, it has become essential due to rapidly evolving customer needs and preferences. 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 gives the Group its own capabilities of creation, and ability of continuously improving qualities, yield rate, mass production, and customised design. This has allowed the Group to develop a full range of smartphones 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 Technology Group in vertical integration for product creation. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Technology 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 such as industrial design, image and audio quality, user experience, AI technology, which will be adopted by various products the Group will offer, including not only mobile phones, but also data modules, network products, IoT devices and automotive products. 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 R&D team will also roll out innovative products for automobiles (telematics box, in-vehicle infotainment system, smart cockpit, etc.) based on successful experience of smartphone system integration. 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 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 investments and has always evaluated the possible alternatives to maximise the benefits (financial, operational and otherwise) from the Group's investments.

The mobile phone manufacturing business is facing various new challenges and opportunities, which have not been encountered before, needless to mention the supply chain disruption and the change in consumer behaviors caused by COVID-19. Although the Group has been doing OEM, ODM and IDM for mobile phone brands 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.

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, which have been difficult to sustain since 2014. China domestic labour costs have risen sharply yet the efficiency of assembly line workers has not increased correspondingly and the cost advantage of China is no longer comparable with other countries in Southeast Asia. The ongoing trade war and COVID-19 pandemic caused a devastate impact on China's economy in the first half of 2020, but the gradual recovery from the third quarter offsets the pressure. According to the World Bank analysis report, the economic growth in China will drop sharply to 2% in 2020 before rebounding to 7.9% in 2021, as economic activity broadens to private investment and consumption, in response to improved consumer and business confidence and better labour market conditions. Nevertheless, 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. Global demand plummeting as a result of the pandemic will likely weigh heavily on companies in China and may lead to the growth of China's corporate debt as companies increase borrowing to sustain their operations.

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, this shift may further be sped up by the pandemic as the government's economic recovery strategy emphasises support of new industry. 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 continues to sustain its effort to this regard.

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in 2021. 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 2020 corporate governance report, which forms part of the annual report incorporating this report of the directors.

Key Risks faced in 2020

Regarding key risks faced in 2020, 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, which has been exacerbated by the COVID-19 outbreak. Pricing pressure has also been higher than expected. As a result, the general state of the global economy, COVID-19, trade war, protectionism, custom duty hikes, market conditions and consumer behavior, which coupled with the risk that the Group's customers may not be 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 counter gross margin erosion pressure while continuing to monitor the impact of factors affecting the business of customers and their financial health. The Group has ceased to manufacture in Nokia-branded smart phones in 2019 and concurrently the Group has become selective when receiving orders from HMD, which has also allowed HMD to engage with external ODMs. Handset market is highly dynamic and competitive and there are negative factors such as unfavorable 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. Some customers may consider insourcing some of the productions so as to optimise their capacity and asset utilisation. Because of the uncertainty caused by COVID-19, instead of placing orders of large quantity, customers place more frequent orders of smaller quantity. With shorter demand visibility, the Company has to control and optimise inventory and working capital and capital management in this tough period of time. The challenging conditions that the Group has faced since late 2017 have continued into 2020 and there is continued pressure on the Group's gross margins generally. Because of keen competition and surplus capacity in the market and as a result of some of the Group's customers facing strong headwinds, gross margin erosion pressure of both casing and system assembly business are unprecedentedly high and such pressure will continue into 2021 with an arduous recovery path ahead.

Although Mainland China has so far shown a robust recovery from COVID-19, handset demand remains weak. In addition, market conditions are challenging and competition is intensifying. In view of the Group's changes in product portfolio and excess capacity, the Group has refined its approach and taken necessary steps with a view to becoming an asset-light corporate group and, accordingly, the Group needs to substantially impair and write-off various under-utilised/obsolete assets, with a view to seeking better returns while disposing of such under-utilised/obsolete assets and relocating suboptimal but useful equipment to form part of the manufacturing facilities in other countries like India and Vietnam. The Group may have to implement additional future restructuring actions or divestitures in 2021 as a result of changes in the handset market and our exit from less profitable or loss-making or under-performing operations. In addition, an increase in the frequency of customers diverting business to the Group's competitors, changes in the volumes they outsource or price erosion pressures may also result in our taking future restructuring or downsizing actions. The Group will have to incur higher operating expenses during periods of transitioning programs to the competitors. Any such restructuring or downsizing activities, if undertaken at all, could adversely impact the Group's operating and financial performances, and may require the Group to further adjust its strategy and operations. The Group will continue to monitor utilisation of assets and assess the need to make impairment.

In China, the general casing manufacturing industry and the Group's casing operation in particular at present are facing excess production capacity. Taking into account reduced demand and continuous decline in the Group's casing operation's gross margin in China, the Group is going to become an asset-light corporate group and will discontinue some of its casing operation in China to cut its excess capacity. At the same time, there is continued demand from other customers to manufacture casings locally in India and having considered the business opportunities in those countries and the global trend to diversify production bases, the Group determined to continue to expand India casing operation which has started operation in November 2019. The expansion plan focuses on vertical integration and the raising of the production capacity and the improvement of capabilities to produce more diverse products of higher value-adding and services requiring more advanced technologies and to appeal to more customers.

In China, the competition in 5G phone market has been fiercer and extended to the entry-level to mid-level segments earlier than expected as Chinese companies are offering 5G phones priced between RMB2,000–3,000 (US$280–421) to lure customers to migrate to 5G network. In countries which already have 5G network services, cut 5G advertising expenditures and slow down the base station deployment which ultimately affects the attractiveness for consumers to purchase 5G phones.

COVID-19 Outbreak

In above sections, impacts of COVID-19 have been explained in details. The global spread of COVID-19 also has created significant macroeconomic uncertainty, volatility and disruption which may adversely affect our and our customers' and suppliers' liquidity, cost of capital and ability to access the capital markets. As a result, the continued spread of COVID-19 could cause further disruptions in our supply chain and customer demand, In the section of Key Relationships with Customers, Suppliers and Employees, actions taken by operations in China, India and Vietnam to minimise impact of COVID-19 were expanded on. As the outbreak took place in China, on 11 March 2020, WHO officially declared COVID-19 a "Pandemic", which has spread to 119 more countries apart from China. As the full effect of COVID-19 is felt globally, the toll that the pandemic will have on the global economy and specifically the handset market is becoming clearer. Actions taken in order to block the possible spread of COVID-19 at the onset of the outbreak by the General Office of the State Council of China, and later on by the provincial and local government led to the temporary closure of factories in China. Additionally, due to precautions involved in returning of workers to factories, a decrease in working days was observed in first quarter of 2020, leading to decreased production of the Group and an increased time for the Group to return production capacity to normal levels. 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 stress on the Group's manufacturing capacity among the factories in China and with similar impact on the entire supply chain and affecting suppliers' cash flow, which could reverberate longer than the immediate crisis.

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 heath safeguards to combat COVID-19 to all aspects of our operations in the affected markets. Major economies around the world went into complete lockdown causing consumer demand to flat line and consumers get increasingly cautious about their spending. This drop in demand, combined with the lockdowns and closures of retail shops across the globe, strongly impacted all consumer device markets, including mobile phones. 2020 was forecasted to be a strong year for the industry, as innovations like 5G and foldable screens attracted consumers to increase spending. Instead, financial struggles and worries about COVID-19 will limit the number of devices companies can make and how many phones people will actually buy. Even once the worst of the pandemic is behind the U.S. and other markets, the global economy will continue to struggle.

The ultimate size and extent of the impact of the COVID-19 pandemic on the Group going forward will be dependent on future developments which cannot currently be predicted, among many other factors, all of which remain highly uncertain and unpredictable. Even after the COVID-19 pandemic has subsided, the Group may continue to experience adverse impacts to our business as a result of the pandemic's global economic impact, infection resurgences in different countries, the length and severity of the crisis, effectiveness of vaccine to contain COVID-19 spread, speed of market recovery, government spending cuts, future government actions in response to the crisis, the speed at which our suppliers and logistics providers can return to and maintain full production and reduce supply lead time and curb component price hikes, the impact of supplier prioritisation of backlog, and tightening of credit markets or increased unemployment that has occurred or may occur in the future, which could cause our customers and potential customers to postpone or reduce spending on handset. We will continue to take appropriate cost productivity actions to improve the overall performance of this business in response to the lower levels of revenue.

Risk Associated with U.S.-China Tensions

As the U.S. presidential election reached to the conclusion, President-elect Joe Biden's administration has sent the signal that the U.S. will remain tough on China issue and President Biden has not revoked any of Trump's China policies or announced any new policy. White House Press Secretary Jen Psaki answered the question about the U.S.-China Phase 1 trade deal signed in January 2020, saying "Everything that the past administration has put in place is under review, as it relates to our national security approach" and "the Biden administration was focused on approaching the U.S.-China relationship from a position of strength, and that means coordinating and communicating with our allies and partners about how we're going to work with China" in the White House Briefing on 29 January 2021. The new U.S. Treasury secretary Janet L. Yellen also told the cable news network "For the moment, we have kept the tariffs in place that were put in by the Trump administration ... and we'll evaluate going forward what we think is appropriate," Besides, Biden articulated a statement of his stance about U.S.-China ties couple times, with most of content being major principles, rather than specific policy announcements. President Biden has shown he will still hold a tough attitude but willing to cooperate with China as it involves in U.S. interest, and advance the security of the America's people. The administration also strives to repair the its alliance and collaborate with them to prevent China's impact get stronger. As the tension between the two power counties has no apparent sign of positive progress in the short term, the Group will continue monitoring the impact and devise counter measures if necessary.

Reliance on Key Customers and Credit Risks

The Group's five largest customers account for 96.5% 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 of the Group. Subsequent settlements of trade receivables are satisfactory and therefore no additional provision is necessary. As market is volatile and because of COVID-19, general economy weakened and current credit and market conditions could have impact on the liquidity and financial condition of our customers, including any impact on their ability to meet their contractual obligations. The Group will keep monitoring credit position of customers and collections from customers and assess default risks and review adequacy of provision for Expected Credit Losses. The Group believes the credit risk of counterparty non-performance continues to be relatively low, notwithstanding the impact of COVID-19. But the Group has some small customers and the exposure to financially troubled customers may adversely affect our financial results. Especially due to the hit of COVID-19, some of the small customers may experience financial difficulty and the Group could have difficulty recovering amounts owed to us, or demand for our products and services from these customers could decline. If one or more of our customers were to become insolvent or otherwise were unable to pay to us in a timely manner, or at all, our financial results could be affected and there may be need to increase expected credit loss allowance and in days our accounts receivables and write-off of inventory and working capital requirements due to higher inventory levels. Any of these risks may be heightened by the effects of the COVID-19 pandemic.

The Group's finance team will continue to monitor closely business performance, cash position and liquidity, financial stability 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 of the loss of one major customer and take necessary steps to mitigate the risks and the Group will dedicate resources to serve all customers and foster long term business relationship. Finally, 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.

Our customers may experience dramatic market share shifts in demand which may cause them to lose market share or exit businesses.

The short-term nature of our customers' commitments and the rapid changes in demand for their products reduces our ability to accurately estimate the future requirements of our customers. This makes it difficult to schedule production and maximise utilisation of our manufacturing capacity. In that regard, we must make significant decisions, including determining the levels of business that the Group will seek and accept, setting production schedules, making component procurement commitments, and allocating personnel and other resources based on our estimates of our customers' requirements.

Finally, there maybe changes to existing business models (buy-and-sell versus consignment) and top line and gross margin and net margin will change accordingly. Buy-and-sell business model means a company buys the materials and adds value and then sells to customers whilst consignment business models means the customer owns the materials and consigns the materials to the contractor/OEM to do the processing works and then OEM ships finished products to the customer and records processing fee income.

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.

Component Supply Risk

Makers of cars and electronic devices from TVs to smartphones are sounding alarm bells about a global shortage of chips, which is causing manufacturing delays as consumer demand bounces back from the coronavirus crisis. The problem has several causes, industry executives and analysts say, including bulk-buying by U.S. sanctions-hit Chinese tech giant, a fire at a chip plant in Japan, coronavirus lockdowns in Southeast Asia, and a strike in France. More fundamentally, however, there has been under-investment in 8-inch chip manufacturing plants owned mostly by Asian firms, which means they have struggled to ramp up production as demand for 5G phones, laptops and cars picked up faster than expected. Frequent tight supply or shortages over wide range of common electronic components started to crop up from third quarter, continued on into forth quarter. ICs, certain passive, filters, LCD display, sensors were altogether showing signs of tight supply with rising price and extending order lead time during a typical high season in the year. Continuing trend of stronger demand and very tight supply was anticipated to last till end of the year and to roll over into first quarter 2021, and most likely will continue in second quarter 2021. There maybe need to buy from the spot market to shorten the lead time but the cost will become higher.

Foreign Exchange Risks

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

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.

2021 Outlook

The Group will continue to face all kinds of risks of 2020. In particular:

(i) The Company expects the rightsizing/restructuring exercise to continue this year, subject to (among other things) changing overall handset market conditions and landscape, general economy, customers' business conditions and challenging political environment, pandemic developments, and the Group's business strategy of being asset-light and lean;

(ii) It is difficult to project future order book of the Group. One of the Group's major Chinese customers is under U.S. sanctions that caused immense impacts on the Group's business development and asset utilisation for 2020 and the impact is expected to continue in 2021. The significant drop of orders from this customer not only bollixed the Group's production planning but also caused a significant impact on its utilisation of assets and reduced contribution margin cannot cover fixed overhead. In addition, the Group has to write-off and impair or sell the under-utilised assets and inventories and to carry out rightsizing/restructuring activities in 2020 and the impact will last to 2021. But the Group will continue to expand in India;

(iii) Component supply shortage is still an important issue. Business environment has been critically volatile in the past six months and will continue, in the Group's view, to be highly temperamental in coming six months. At high level, the Group is experiencing order lead time extension for almost all electronic components, semiconductors and others, and certain semiconductor suppliers have asked or are about to ask for raising price from first quarter 2021 and onward. The Group is experiencing tight supply and rising cost at the same time and they clearly are unfavourable challenges to business and profitability. Scale of current demand/supply challenge is not ever seen in recent history, limitation in fabrication capacity for semiconductor is the main cause for wide range, across the board semiconductor component supply challenge, and, therefore, consequently resulting in longer order lead time and rising cost. Out of proportion demand increase generated through new applications like 5G communication, safety and autonomous driving features adopted by traditional vehicles and EVs, may tip off the balance between demand and supply from time to time. New administration coming into office in U.S., continuing trade tension between U.S. and China, successful pandemic containment and recovery in major consumer markets, COVID-19 vaccine development, allocation and administering, growth in 5G infrastructure and phone market and Tokyo Olympics games are all visible main events that will play out over the course of 2021, each and every one of them may easily make its mark in the Group's business and quickly pass down the impact along the demand/supply chain. As it is, this is too complex for longer term forecast to last and hold. The Group remains vigilant to the challenges which will unfold over time and will be prepared and react to the best of its capacity.

    Mission to the Group's procurement team is to find and adopt the optimal solution against rolling challenges among secure adequate supply, provide quality material, maintain strong bargaining power, trade at market competitive pricing and execute in a time-efficient manner time after time, all under a continuously evolving, dynamic market. The Group will work constantly in order to stay ahead of the game through basic principles, to evaluate purchase cost by total cost of ownership, consolidate business with handful preferred partners, review supply base on regular basis and move to competitive sources when justified, localise supply in certain countries in order to cut order lead time, lower inbound logistics cost and avoid import tariff and maintain quality focus, meet customer/product requirements, cost to specification;

(iv) Given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group have been deferred, the Group materially increased its allowance for credit losses arising from trade receivables during the current period. The Company will continue to closely monitor the situation, and where it considers necessary, will make a greater allowance for expected credit losses arising from trade receivables;

(v) Possible receipt of government compensation when relocating factory to other location; and

(vi) Increase in freight charges. A combination of rebounding demand for goods in second half of 2020, supply chain disruptions — such as container box shortages and port congestion — and more strategic capacity management drove container freight rates up, especially on the routes from China to Europe and the U.S.

Spot freight rates will remain high in the short term and these higher-than-usual spot rates will translate into higher contract freight rates in the ongoing spring contracting season. The rate is susceptible to risks of weak economic recovery and trade protectionism, requiring constant prudent capacity management and the market views rate volatility as an inherent sector risk and rates are expected to reduce once supply disruptions related to the pandemic are addressed, as the industry is highly competitive.

Trade volume recovery was fuelled by a change in consumer spending habits during the pandemic — ordering more manufactured goods while saving by spending less on services, such as leisure and restaurants. It was further supported by inventory re-stocking by businesses that faced acute supply chain disruptions and increased demand for personal protective equipment. Total volumes shipped from Asia to North America exceeded 2019 levels by over 7% in 2020, according to Container Trade Statistics. A decline in volumes on the Asia-Europe route by about 5% in 2020 indicates a growth potential in 2021 as demand recovers. Container box shortages and port congestions due to pandemic-related operational disruptions have extended container ships' turnaround times, further increasing freight rates. A usually quiet period during the Chinese New Year could have eased some congestion, but demand remained strong as China maintained its production levels. The ongoing virus outbreaks in many regions and mobility restrictions are likely to keep freight rates abnormally high in the short term.

The Company refers to its announcements of 4 December 2020 and 5 February 2021 respectively, which in turn referred to (among other things) the various factors attributable to the Group's consolidated net loss for the current period, which factors have continued since 1 January 2021 and are currently expected to continue into the first half of 2021 and, potentially, the second half of 2021.

Given all of the updates and other matters (including without limitation those relating to the COVID-19 pandemic and on-going developments) described above in this "Business Review — Discussion and Analysis" section, the Company considers it is currently too early and difficult to predict with any precision what further adverse impacts such matters might have on the Group's performance for the first half of 2021.

On the basis of a preliminary review of the Group's latest unaudited management accounts and other information currently available, the Company currently expects that the Group is likely to record a consolidated net loss for the six months ending 30 June 2021, though the Company is currently unable to reasonably and meaningfully estimate a precise likely magnitude of such consolidated net loss for the six months ending 30 June 2021.

The Company has been working hard, proactively taking appropriate measures and doing other acts and things that it reasonably can to maximise its performance through these challenging times. The Company will keep matters under close review as the first half of 2021 progresses, and will make further announcement(s), as necessary, to keep its 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 2021) certain unaudited consolidated financial information of the Group for the three months ending 31 March 2021, 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, including without limitation the following, individually and collectively:

- changes in the ecosystem and macro-economic environment (e.g. intensifying tensions, political conditions and competition, and recovery of economy of the PRC and other major economies) and industry generally;

- development of the COVID-19 pandemic and related lockdowns and restrictions and consequential adverse impacts on the global economy generally, and related changes in consumer demand, price wars, seasonality of sales, freight charges and stable supply of components (in terms of lead time, volume and price). In particular, semiconductor companies are asking their customers for patience as the industry works through a sharp increase in demand from makers of a variety of goods ranging from cars to consumer electronics (including handsets). As the pandemic has adversely impacted on every aspect of human society, businesses are experiencing even more challenging conditions, basically associated with a general economic downturn. These conditions include, but are not limited to, financial market volatility and erosion, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of decreased demand, layoffs and furloughs, and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn which could have prolonged negative impacts on the performance and financial results of different businesses. Please also refer to other paragraphs above for more adverse impacts of the COVID-19 pandemic on the Group and its performance in different aspects;

- continuous rightsizing/restructuring of the underperforming parts of the Group's manufacturing operations to achieve its business strategy to become more asset-light and lean, which may lead to on-going rightsizing/restructuring works and associated severance and other costs, expenses and/or losses as well as associated impairment and/or write-off of the Group's under-utilised/obsolete/depreciated assets;

- factors relating to the supply chain (e.g. component cost hikes, delivery lead time and shortage) and to inventory (e.g. accumulated inventory may take time to clear and may have to be written-off, thus increasing inventory carrying cost);

- customers' credit risks and assessment of adequacy of expected credit loss allowances, product launch or product recalibration strategies; possible cancellation or delay of customer orders or change of production quantities; certain customers' products having short product life time volume; market competitiveness; shifts in customers' demand and preferences and propensity to spend (e.g. in-house manufacturing instead of outsourcing); seasonality of sales; potential decline of sales to a major customer and on-going customer diversification; timing of receipt of claims made with customers;

- changes in money markets (e.g. fluctuation of interest rates and foreign exchange rates as well as foreign currency exchange gains and losses) and capital markets; market volatility (e.g. RMB and INR and other currency volatility, stock market volatility); effectiveness of hedging activities;

- business strategy adjustments; sales and product mix changes; technology advancement; pace of overseas expansion;

- market/legal/regulatory/tax/fiscal and monetary/government policy/tariff changes (e.g. changes of custom duty rates, custom duty exemptions, government's blacklisting, export controls and bans against the Group's major customer, boycott of Chinese-made products and Chinese-based services);

- unprecedented and uncertain global environment resulting in a wide range of potentially long-term consequences which may give rise to discrete losses or expenses, such as those related to future impairment/write-off of property, plant and equipment, goodwill, intangible assets and equity investments;

- timing of dispositions of equity investments and resulting profits/losses; performance of the Group's associates and its share of those associates' profits/losses; and

- renewing or meeting the conditions of any tax incentives and credits; granting and timing of receipt of incentives, relief packages, compensations and other grants and assistance which may be subject to the applicant having met certain conditions and criteria (like export amount) and such applicant's eligibility and ability to meet all such conditions and criteria.

Finally, 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 impacts of such risk factors on the Group's business.

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

Environmental Policies and Performance

The Group's business strategy is firmly grounded on values of sustainable development as awareness of environmental and social issues arise on a global agenda. A sound governance system is essential to drive sustainable initiatives whilst taking into account the interests of all key stakeholders, internal and external, namely employees, customers, suppliers, the community, shareholders/investors and non-governmental organisations.

As a member of the Hon Hai Technology Group, the Group's operations are guided by the Hon Hai Technology Group's Social and Environmental Responsibility ("SER") Code of Conduct Policy ("SER Code"), which sets out the Group's standards relating to ethics, labour and human rights, health and safety, environment, management systems, responsible sourcing of minerals, anti-corruption and anti-trafficked and forced labour.

Environmental sustainability is a top priority for the Group. The Group has put in place a systematic approach towards integrating green and sustainable practices in its operations, implementing measures in the areas of environmentally-friendly product design, greenhouse gas ("GHG") emission reduction, process management, energy and resource management and supply chain management to minimise the negative impact of the Group's operations on the environment and natural resources, with the aim of attaining the international standards laid down by the ISO14001 environmental management system and the European Eco-Management and Audit Scheme.

In this connection, the Group actively monitors the following principal areas: energy management and GHG emission reduction, air pollution control, water treatment and utilisation and waste management, to ensure that the Group's operations comply with the SER Code towards achieving environmental sustainability. The Group has set up specialised divisions to study the environmental requirements of regulators, customers, industry and other key stakeholders, including compliance with the "Product Quality Law of the People's Republic of China", the European Union's "Restriction on Hazardous Substances Directive" (RoHS) and the European Union's Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation, restrictions on the use of conflict minerals as well as HF (Halogen-Free) certifications and GHG emission reduction expectations. The results of these efforts are translated into actionable internal measures that can be integrated and applied within the Group's operations. The Group has established specific SER-related policies and guidelines which are strictly applied in its supply chain, including procurement process, production process and delivery process.

The Group works to achieve the Hon Hai Technology Group's global energy-efficiency goals, which are set annually and communicated to its business units/groups. The attainment of these goals is facilitated by the implementation of the ISO50001 energy management system which drives progress using the model of continual improvement. By leveraging a range of energy-saving and GHG emission reduction technologies, the Group actively promotes energy efficiency management and renewable energy utilisation and hence corresponding GHG emission reduction. The Group's suppliers are required to adhere to the Group's GHG emission reduction policies and establish systems, at the organisational and product levels, to monitor GHG emissions.

The Group closely controls and monitors any air pollutants which may be generated during the manufacturing and transportation processes. The functioning of air pollutant emission systems is also under routine examination. The Group actively promotes the reduction and reuse of wastewater and adopts the use of reclaimed water throughout its production lines in order to reduce the impact of manufacturing on the environment. Wastewater is closely monitored and controlled before discharge, and the functioning of wastewater handling systems is also under routine examination. The Group's solid waste management guidelines provide directions on how to differentiate, control, reduce, dispose of, transport, store and recycle solid waste as well as chemicals and hazardous materials. All relevant waste is treated and disposed of in compliance with relevant environmental laws and regulations. The Group works to maximise waste recycling, and leverages design and technology to transform waste into usable resource inputs.

As a result of the Group's efforts, all of the Group's manufacturing plants in the PRC, India and Vietnam have attained the ISO14001 environmental management system. During the current period, major technology upgrades have been made in certain production facilities at Langfang, the PRC (which obtained the ISO50001 energy management system certification), including the introduction of a variety of energy-saving and emission reduction equipment such as light steam engines and energy-efficient air guns.

RESERVES

Movements in reserves of the Group during the current period are set out on page 96.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution amounted to approximately US$1,675,286,000.

SHARE CAPITAL

Details of movements in share capital during the current period are set out in note 27 to the consolidated financial statements.

During the current period and up to the date of this report of the directors, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 17 April 2020) duly approved by the Company's shareholders at the Company's annual general meeting held on 22 May 2020, the Company bought back in multiple batches a total of 118,182,000 shares on the Stock Exchange in cash. Among these shares so bought back, 17,580,000 shares and 40,420,000 shares were cancelled on 7 September 2020 and 9 October 2020 respectively, whereas 25,364,000 shares and 34,818,000 shares were cancelled on 7 January 2021 and 29 January 2021 respectively, in all cases in accordance with the amended and restated articles of association of the Company in force for the time being (the "Articles"). For details, please refer to the section headed "Purchase, Redemption or Sale of Listed Securities of the Company" below.

Further, no shares of the Company were allotted or issued during the current period.

FINANCIAL SUMMARY

A financial summary of the results of the Group for the last five financial years is set out on page 171.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group during the current period are set out in notes 14 and 16 to the consolidated financial statements, respectively.

BANK LOANS

Details of bank loans are set out in note 26 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the current period and up to the date of this report of the directors are:

Executive Directors

CHIH Yu Yang
KUO Wen-Yi
MENG Hsiao-Yi (appointed with effect from 30 October 2020)
WANG Chien Ho (retired with effect from 30 October 2020)

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih

Having received written confirmations from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Listing Rules, the Company considers each independent non-executive director to be independent. For details, please refer to the "Independent Non-executive Directors" section of the Company's 2020 corporate governance report, which forms part of the annual report incorporating this report of the directors.

Pursuant to the approval of the Board on 30 October 2020, Mr. MENG Hsiao-Yi ("Mr. Meng") was appointed as an executive director of the Company for a term commencing from 30 October 2020 and ending upon the conclusion of the relevant general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles. He has entered into a director's service contract with the Company and is entitled to an annual emolument package of US$76,000 and a discretionary bonus to be determined by the Board from time to time with reference to the Company's performance, his duties and responsibilities with the Company, his contribution to the Company and the prevailing market practice.

Mr. WANG Chien Ho ("Mr. Wang"), a former executive director of the Company, retired as an executive director of the Company with effect from 30 October 2020, as a matter of an orderly succession planning at the Board level, so that Mr. Wang could focus more on his core roles and functions at the management level. In this respect, Mr. Wang has confirmed that he has no disagreement with the Board and there is no other matter relating to his retirement that needs to be brought to the attention of the shareholders of the Company.

Pursuant to Article 112 of the Articles, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with Article 112 of the Articles, Mr. LAU Siu Ki and Dr. Daniel Joseph MEHAN will retire by rotation at the Company's forthcoming annual general meeting and, being eligible, they will offer themselves for re-election at such meeting.

Pursuant to Article 95 of the Articles, Mr. Meng, who was appointed as an executive director of the Company with effect from 30 October 2020 after the last general meeting of the Company, will hold office until the next general meeting and, being eligible, he will offer himself for re-election at the Company's forthcoming annual general meeting.

Mr. CHIH Yu Yang, an executive director of the Company, has been appointed as a director of 富佳生技股份有限公司 (iCare Diagnostics International Co. Ltd. for identification purposes) (a start-up company which is engaged in digital health care and invests in diagnostics facilities) with effect from 26 September 2020.

Mr. TAO Yun Chih, an independent non-executive director of the Company, has taken up new roles with Grand Hall Enterprise Co., Ltd. and EasyCard Corporation and also re-designated his current role with XRSPACE as more particularly described in the section headed "Profile of Directors and Senior Management", which forms part of the annual report incorporating this report of the directors.

Mr. LAU Siu Ki, an independent non-executive director of the Company, is involved in the Market Misconduct Tribunal proceedings commenced by the Hong Kong Securities and Futures Commission. For details, please refer to the "Independent Non-executive Directors" section of the Company's 2020 corporate governance report, which forms part of the annual report incorporating this report of the directors.

For details of the directors' remuneration and expense allowances for the current period, please refer to note 8 to the consolidated financial statements.

SERVICE CONTRACTS

None of the directors of the Company has entered into a service contract with the Company which has not expired and which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its holding company or any subsidiary of the Company's holding company was a party and in which a director of the Company or an entity connected with a director of the Company (as defined in Section 486 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the current period.

PERMITTED INDEMNITY PROVISION

Article 175 of the Articles provides that: (i) every director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgement is given in his/her favour, or in which he/she is acquitted; and (ii) subject to the Companies Act of the Cayman Islands (as amended from time to time), if any director of the Company or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the director or person so becoming liable as aforesaid from any loss in respect of such liability. Such permitted indemnity provision is in force during the current period and at the time of approval of this report of the directors.

DISCLOSURE OF INTERESTS

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2020, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
CHIH Yu Yang	The Company	Personal Interest	20,731,661	0.2545%
	Hon Hai	Personal Interest	108,075	0.0008%
	CMCS *(Note)*	Personal Interest	1,000	0.0007%
KUO Wen-Yi	The Company	Interest of Spouse	700,000	0.0086%
	Hon Hai	Personal Interest	1,848	0.00001%
	Hon Hai	Interest of Spouse	13	0.0000001%
MENG Hsiao-Yi	The Company	Personal Interest	983,955	0.0121%

Note: The Company indirectly, through its wholly-owned subsidiaries, holds approximately 87.06% of the entire number of issued shares of CMCS, a company incorporated in Taiwan.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2020, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any director of the Company, as at 31 December 2020, shareholders (other than the directors or chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited *(Note 1)*	Beneficial owner	5,081,034,525	62.38%
Hon Hai *(Notes 1 and 2)*	Interest of a controlled corporation	5,081,034,525	62.38%

Notes:

1. Foxconn (Far East) Limited is a direct wholly-owned subsidiary of Hon Hai, and therefore, Hon Hai is deemed or taken to be interested in the 5,081,034,525 shares which are beneficially owned by Foxconn (Far East) Limited for the purposes of the SFO.

2. Mr. CHIH Yu Yang, the acting chairman and an executive director of the Company, is a director of a subsidiary and an associate of Hon Hai. Mr. WANG Chien Ho, a former executive director of the Company retiring with effect from 30 October 2020, is an employee of the Hon Hai Technology Group.

Save as disclosed above, as at 31 December 2020, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration paid/payable to the four members of the senior management of the Company (whose biographical details are disclosed in "Profile of Directors and Senior Management" set forth in the Company's 2019 annual report as issued and published on 16 April 2020), one ceasing to be a senior management member of the Company with effect from 1 October 2020, during the current period was within the following bands:

	Number of senior management
HK$500,001 to HK$1,000,000	1
HK$1,000,001 to HK$1,500,000	–
HK$1,500,001 to HK$2,000,000	2
HK$2,000,001 to HK$2,500,000	–
HK$2,500,001 to HK$3,000,000	1
	4

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions not falling under Rule 14A.76(1) of the Listing Rules as undertaken by the Group during the current period are summarised as follows:

For more details, please refer to the Company's announcements relating to continuing connected transactions dated 9 October 2019, 29 October 2019 and 7 August 2020 respectively, circulars relating to continuing connected transactions dated 14 November 2019 and 28 August 2020 respectively, and announcements dated 6 December 2019 and 18 September 2020 respectively relating to poll results of the extraordinary general meetings.

Purchase Transaction

Pursuant to the framework materials and components supply agreement entered into among the Company, Hon Hai, Innolux Corporation (formerly known as Innolux Display Corporation and then Chimei Innolux Corporation, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) and 鴻準精密工業股份有限公司 (Foxconn Technology Co. Ltd. for identification purposes only, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) (both being associates of Hon Hai) on 19 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016, 31 July 2017 and 9 October 2019) (the "Purchase Agreement"), the Group has purchased materials and components from the Hon Hai Technology Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) in respect of purchases from a supplier of materials, components and other products that may be used in the businesses of the Group from time to time as approved by the Group's customer (the "Approved Vendor"), at the price agreed between the supplier and the Group's customer; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Purchase Agreement (the "Purchase Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Purchase Transaction for the three years ending 31 December 2022 at US$1,889,106,000 for 2020, US$2,334,761,000 for 2021 and US$2,885,550,000 for 2022.

Hon Hai is the leading player in the computer, communication and consumer electronics ("3C") manufacturing services industry. Under the convergence trend of the 3C industries, an increasing number of types of materials, components and other products manufactured by the Hon Hai Technology Group are used for the manufacture of consumer electronic products, in particular handsets. The Company believes that it is an important competitive advantage of the Group that the Group together with the members of the Hon Hai Technology Group can provide a wide range of vertically integrated manufacturing services to the customers.

Product Sales Transaction

Pursuant to the framework product sales agreement entered into among the Company, Hon Hai and Innolux Corporation (an associate of Hon Hai formerly known as Innolux Display Corporation and then Chimei Innolux Corporation, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hoi) on 18 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016 and 9 October 2019) (the "Framework Product Sales Agreement"), the Group has sold parts or other products manufactured or owned by it to the Hon Hai Technology Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Technology Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Product Sales Agreement (the "Product Sales Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Product Sales Transaction for the three years ended 31 December 2022.

The Company considers it in its best interests to generate more income as well as enhance utilisation of its assets by carrying out the Product Sales Transaction in response to the Hon Hai Technology Group's needs from time to time, provided that the Hon Hai Technology Group purchases from the Group at prices comparable to market prices and/or which are considered to be fair and reasonable to the Company.

An existing customer of the Group (the "Customer") was acquired by the Hon Hai Technology Group in the beginning of 2020 and became a connected person of the Company. The Group's sales of products to the Customer have become part of the Company's continuing connected transactions falling under the Product Sales Transaction since then. Taking into account the Group's sales of products to the Customer, together with the other sales of products under the Product Sales Transaction, the Company anticipated that the then existing annual caps might not be sufficient. Therefore, the Company proposed to revise the then existing annual caps for the Product Sales Transaction for the three years ending 31 December 2022 at US$3,370,641,000 for 2020, US$4,159,639,000 for 2021 and US$5,133,326,000 for 2022.

The proposed revised annual caps for the Product Sales Transaction for the three years ending 31 December 2022 were determined mainly with reference to the following major factors:

(a) the actual transaction amounts of the Product Sales Transaction for the six months ended 30 June 2020;

(b) the transaction amounts of the Product Sales Transaction for the second half of 2020 as estimated based on the following:

  i. the actual transaction amounts of the Group's sales of products to the Customer in the second half of 2019 and the annual growth rate of the Group's sales of products to the Customer of 2019 of 47.3%; and

  ii. the actual average monthly transaction amounts of the Group's sales of products to the other customers (other than the Customer) under the Product Sales Transaction for the period from March to June 2020;

(c) the transaction amounts of the Product Sales Transaction for 2021 and 2022 as estimated based on an annual growth rate of 23.4%, representing the annual growth rate of the estimated transaction amounts of the Product Sales Transaction of 2020; and

(d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

Based on the maximum amount of the proposed revised annual caps for the three years ending 31 December 2022 for the Product Sales Transaction and each of the proposed revised annual caps on an annual basis exceeding HK$10 million, the Product Sales Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Product Sales Transaction and the proposed revised annual caps for the three years ending 31 December 2022 were subject to the approval of the Company's shareholders other than Hon Hai and its associates as defined in the Listing Rules (the "Independent Shareholders"). On 18 September 2020, the Product Sales Transaction and the proposed revised annual caps for the three years ending 31 December 2022 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Non-real Property Lease Expense Transaction

Pursuant to the framework lease agreement relating to movable non-real properties dated 13 June 2013 (as amended by the respective supplemental agreements dated 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Framework Non-real Property Lease Expense Agreement"), the Group has leased movable non-real properties such as equipment and machines (the "Non-real Properties") from the Hon Hai Technology Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) the rental payable by the Group under the transactions contemplated under the Framework Non-real Property Lease Expense Agreement (the "Non-real Property Lease Expense Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar properties in the market; or

(b) if the average market rental is not available, the rental payable under the Non-real Property Lease Expense Transaction shall be determined on a "cost plus" basis; or

(c) if both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Non-real Property Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Non-real Property Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Non-real Property Lease Expense Transaction for the three years ending 31 December 2022 at US$24,577,000 for 2020, US$32,483,000 for 2021 and US$42,932,000 for 2022.

In carrying out the Product Sales Transaction and other manufacturing projects, the Group may require the use of the Non-real Properties (including but not limited to specialised equipment and machines). By leasing such Non-real Properties from the Hon Hai Technology Group, the Group may gain access to the use of such Non-real Properties at rental rates agreeable to the Company saving capital expenditures.

Consolidated Services and Sub-contracting Expense Transaction

Pursuant to the framework consolidated services and sub-contracting agreement entered into among the Company, Hon Hai, PCE Industry Inc. (a former subsidiary of Hon Hai, which had been dissolved) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company, which had been dissolved on 15 June 2020) on 24 October 2007, pursuant to which (among other things) all respective rights, obligations and liabilities of PCE Industry Inc. and Sutech Industry Inc. thereunder were assumed and taken up by Hon Hai and the Company respectively (as amended by the respective supplemental agreements between the Company and Hon Hai dated 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) (the "Consolidated Services and Sub-contracting Expense Agreement"), the Hon Hai Technology Group has provided services (including research and development services, design services, repair services and sub-contracting services) to the Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where the Hon Hai Technology Group has been approved or otherwise designated by the relevant customers of the Group, at the price agreed between the Hon Hai Technology Group and such customers; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement (the "Consolidated Services and Sub-contracting Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2022 at US$335,326,000 for 2020, US$414,432,000 for 2021 and US$512,200,000 for 2022.

The Company considers that the services provided by the Hon Hai Technology Group under the Consolidated Services and Sub-contracting Expense Transaction as requested by the Group can enhance the Group's handset manufacturing capabilities and related capacity in its handset manufacturing business, provide the Group with greater flexibility in capacity planning and allow the Group to carry on its business more efficiently.

Equipment Purchase Transaction

Pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Framework Equipment Purchase Agreement"), the Group has purchased equipment from the Hon Hai Technology Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Technology Group; or

(b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or

(c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Equipment Purchase Agreement (the "Equipment Purchase Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Purchase Transaction for the three years ending 31 December 2022 at US$109,382,000 for 2020, US$135,186,000 for 2021 and US$167,077,000 for 2022.

The Hon Hai Technology Group is able to customise standard industry equipment to varying degrees to better suit the production needs of the Group. Purchasing equipment from the Hon Hai Technology Group helps shorten the lead time to deliver the equipment to the Group. The Group in the past also purchased used equipment that was in good condition from the Hon Hai Technology Group at the book value of the equipment in the Hon Hai Technology Group's accounts. It is also more convenient for the Group to obtain the required maintenance services for the customised equipment from the Hon Hai Technology Group.

Sub-contracting Income Transaction

Pursuant to the framework sub-contracting agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 26 July 2012, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Sub-contracting Income Agreement"), the Group has provided certain services (such as molding, metal stamping for handsets and desktop computers, handset repair services and other services) to the Hon Hai Technology Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Technology Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Sub-contracting Income Agreement (the "Sub-contracting Income Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Sub-contracting Income Transaction for the three years ending 31 December 2022 at US$142,342,000 for 2020, US$175,921,000 for 2021 and US$217,422,000 for 2022.

The Company considers it in its best interests to generate more income as well as enhance utilisation of its assets by carrying out the Sub-contracting Income Transaction as long as the services are provided at prices that are fair and reasonable pursuant to the Sub-contracting Income Agreement.

General Services Expense Transaction

Pursuant to the general services agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "General Services Expense Agreement"), the Hon Hai Technology Group has provided general administrative, support, utility and other related services to the Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where there is a price determined by the relevant state, at such state-determined price; or

(b) where there is no state-determined price, at the market price; or

(c) where there is no state-determined price or market price, on the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the relevant parties.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the General Services Expense Agreement (the "General Services Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the General Services Expense Transaction for the three years ending 31 December 2022 at US$30,068,000 for 2020, US$35,648,000 for 2021 and US$42,263,000 for 2022.

Certain production facilities of the Group are located at premises owned and managed by the Hon Hai Technology Group and leased to the Group under the Lease Expense Transaction (as defined below). Within such premises, the Hon Hai Technology Group provides a number of general administrative, support, utility and other related services to all tenants, including the Group, which are necessary for the tenants to carry out their operations in such locations. The Company considers it more cost effective for the Group to share some other services provided by the Hon Hai Technology Group, such as product testing, specialist inspection and information technology and communication services.

Equipment Sale Transaction

Pursuant to the framework equipment sale agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Framework Equipment Sale Agreement"), the Group has sold equipment to the Hon Hai Technology Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Group; or

(b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or

(c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Equipment Sale Agreement (the "Equipment Sale Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Sale Transaction for the three years ending 31 December 2022 at US$14,729,000 for 2020, US$18,203,000 for 2021 and US$22,497,000 for 2022.

From time to time certain equipment of the Group no longer meets the production needs of the Group which may be as a result of a number of factors, such as new product specifications required by customers, capacity planning and new production arrangements. However, such equipment may be useful to the Hon Hai Technology Group for its businesses. The Group may sell such equipment to the Hon Hai Technology Group at prices the Company considers to be fair and reasonable generating more income for the Group.

Lease Expense Transaction

Pursuant to the framework lease agreement dated 18 January 2005 between 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd. for identification purposes only) (a wholly-owned subsidiary of the Company) ("FTH", which was subsequently replaced by the Company as the party thereto) and Hon Hai (as amended by the supplemental agreement between FTH and Hon Hai dated 12 January 2006 and the respective supplemental agreements among the Company, FTH and Hon Hai dated 20 September 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016 and 9 October 2019) (the "Framework Lease Expense Agreement"), the Hon Hai Technology Group has leased premises owned by it and located worldwide to the Group from time to time as requested by the Group for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) the rental payable by the Group under the transactions contemplated under the Framework Lease Expense Agreement (the "Lease Expense Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market; or

(b) if the average market rental is not available, the rental payable under the Lease Expense Transaction shall be determined on a "cost plus" basis; or

(c) if both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Lease Expense Transaction for the three years ending 31 December 2022 at US$10,159,000 for 2020, US$12,556,000 for 2021 and US$15,518,000 for 2022.

A part of the Group's operations in certain jurisdictions is located in the Hon Hai Technology Group's industrial parks in such jurisdictions in view of the benefits of locating close to the members of the Hon Hai Technology Group which possess leading capabilities and expertise amid the convergence trend within the 3C industries, and the physical proximity can lead to additional savings and efficiency to the Group if the Group's customers select these members of the Hon Hai Technology Group as the Approved Vendors.

Lease Income Transaction

Pursuant to the framework lease agreement dated 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Framework Lease Income Agreement"), the Group has leased to the Hon Hai Technology Group premises owned by it or any part thereof located worldwide as agreed between the parties from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) the rental payable by the Hon Hai Technology Group under the transactions contemplated under the Framework Lease Income Agreement (the "Lease Income Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market; or

(b) if the average market rental is not available, the rental payable shall be determined on a "cost plus" basis; or

(c) if both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Lease Income Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Lease Income Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Lease Income Transaction for the three years ending 31 December 2022 at US$8,227,000 for 2020, US$11,568,000 for 2021 and US$16,268,000 for 2022.

The Group has its own premises (including but not limited to vacant land, bare sites, manufacturing plants, offices, buildings, structures and dormitories, and the related or ancillary facilities), and may have surplus space from time to time. The Company considers it in its best interests to lease out such surplus space and generate additional income for the Group at prices comparable to the market and/or above the costs attributable to the leased premises pursuant to the relevant agreement in respect of the Lease Income Transaction.

General Services Income Transaction

Pursuant to the framework general services agreement entered into between the Company and Hon Hai on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) (the "General Services Income Agreement"), the Group has agreed to provide, or procure third parties to provide, to the Hon Hai Technology Group general administrative, support, utility and other services as the Group and the Hon Hai Technology Group may agree from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where there is a price determined by the relevant government authority, at such government-determined price; or

(b) where there is no government-determined price, at the market price; or

(c) where there is no government-determined price or market price, at a price to be agreed between the parties on the basis of the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the relevant parties based upon reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the General Services Income Agreement (the "General Services Income Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the General Services Income Transaction for the three years ending 31 December 2022 at US$1,957,000 for 2020, US$2,419,000 for 2021 and US$2,990,000 for 2022.

Certain production facilities of the Hon Hai Technology Group are located at premises owned and managed by the Group and leased to the Hon Hai Technology Group under the Lease Income Transaction (the lease of premises by the Group to the Hon Hai Technology Group contemplated under the Framework Lease Income Agreement). Within such premises, the Group provides a number of general administrative, support, utility and other related services to all tenants, including the Hon Hai Technology Group, which are necessary for the tenants to carry out their operations in such locations. The Hon Hai Technology Group also utilises some other services provided by the Group, such as product testing, specialist inspection and information technology and communication services. The Company considers it in its best interests to generate more income as well as enhance utilisation of its services as long as the services are provided at prices that are considered to be fair and reasonable to the Company.

Annual Consideration

The total consideration of each continuing connected transaction not falling under Rule 14A.76(1) of the Listing Rules as undertaken by the Group during the current period is as follows:

Continuing connected transaction	Paying group	Total consideration for the year ended 31 December 2020 (US$'000)
Purchase Transaction	Group	807,983
Product Sales Transaction	Hon Hai Technology Group	2,284,721
Non-real Property Lease Expense Transaction	Group	15,730
Consolidated Services and Sub-contracting Expense Transaction	Group	186,935
Equipment Purchase Transaction	Group	18,829
Sub-contracting Income Transaction	Hon Hai Technology Group	64,530
General Services Expense Transaction	Group	17,675
Equipment Sale Transaction	Hon Hai Technology Group	9,416
Lease Expense Transaction	Group	9,758
Lease Income Transaction	Hon Hai Technology Group	4,594
General Services Income Transaction	Hon Hai Technology Group	525

Annual Review

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to report on the continuing connected transactions of the Group not falling under Rule 14A.76(1) of the Listing Rules. The Company's auditor was engaged to report on such continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of such continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. The auditor has reported its findings and conclusions to the Board. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Following specific enquiries with the Company's chief financial officer (in his own capacity and on behalf of the Company's management designated for the purpose of assisting the Board with the Group's overall policies on enterprise risk management and internal controls) and the recommendation from the Company's audit committee, the independent non-executive directors of the Company have reviewed the transactions and the findings and conclusions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or better; and

3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, in respect of the continuing connected transactions of the Group for the current period not falling under Rule 14A.76(1) of the Listing Rules, the Company has followed the pricing policies set out in the relevant agreements governing them, and the independent non-executive directors of the Company have confirmed that the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with such pricing policies.

For more details, please refer to the "Accountability and Audit" section set out in the Company's 2020 corporate governance report, which forms part of the annual report incorporating this report of the directors.

The related party transactions referred to in note 37 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Exempt Continuing Connected Transactions

With reference to the Group's exempt continuing connected transactions falling under Rule 14A.76(1) of the Listing Rules as more particularly described in pages 35 and 36 of the Company's announcement dated 9 October 2019, the transactions contemplated by the Master Brand License Agreement (as defined in such announcement) have ceased to constitute a continuing connected transaction for the Company with effect from 1 July 2020 when the Master Brand License Agreement expired without any renewal by the parties thereto.

SHARE OPTION SCHEMES AND SHARE SCHEMES

Termination of Former Schemes and Adoption of Existing Schemes

A former share option scheme (the "Former Share Option Scheme") and a former share scheme (the "Former Share Scheme") were adopted by the Board on 12 January 2005. The Former Share Scheme was amended by the shareholders of the Company at the extraordinary general meeting of the Company held on 4 August 2006 and by the Board at the Board meeting held on 29 October 2009.

As the Former Share Option Scheme and the Former Share Scheme were valid and effective only until (inclusive of) 2 February 2015 and considering that the permitted option period provided under the Former Share Option Scheme limited the vesting period of the options only up to 2 February 2015 (same as the expiry date of the Former Share Option Scheme) which limited the flexibility for the Board when considering the grant of options, ordinary resolutions were proposed at the Company's extraordinary general meeting held on 26 November 2013 (the "26 November 2013 EGM") to approve the adoption of a new share option scheme (the "Existing Share Option Scheme") and a new share scheme (the "Existing Share Scheme") as well as the consequential termination of the Former Share Option Scheme and the Former Share Scheme. At the 26 November 2013 EGM, ordinary resolutions were passed by the shareholders of the Company to approve the adoption of the Existing Share Option Scheme and the Existing Share Scheme as well as the consequential termination of the Former Share Option Scheme and the Former Share Scheme.

The Existing Share Option Scheme and the Existing Share Scheme shall be valid and effective for a period of 10 years from 26 November 2013 until 25 November 2023, unless otherwise terminated in accordance with their respective terms.

For the avoidance of doubt, no further options would be granted under the Former Share Option Scheme after its termination, and no further shares would be granted under the Former Share Scheme after its termination, but in all other respects, the provisions of the Former Share Option Scheme and the Former Share Scheme respectively shall remain in full force and effect. Accordingly, all options granted prior to the termination of the Former Share Option Scheme and not then exercised shall remain valid and shall continue to be subject to the provisions of the Former Share Option Scheme and Chapter 17 of the Listing Rules, and all shares granted prior to the termination of the Former Share Scheme and not then vested shall remain valid and shall continue to be subject to the provisions of the Former Share Scheme. In relation to all options granted prior to the termination of the Former Share Option Scheme and not then exercised, such options lapsed in their entirety as at 31 December 2014 and therefore there are no outstanding options granted under the Former Share Option Scheme since 1 January 2015.

Apart from the Existing Share Option Scheme and the Existing Share Scheme and potential entitlements pursuant to Hon Hai's articles of incorporation (pursuant to which, among other things, Hon Hai shares may be distributed as part of compensation to employees, including the Company's directors, upon and subject to the terms and conditions set out therein) and also potential entitlements to any and all scrip dividends (which any director of the Company may from time to time have as a shareholder of the Company and/or Hon Hai in respect of the relevant shares then held by him/her) pursuant to any scrip dividend scheme in respect of any dividend as may be announced by the Company and/or Hon Hai from time to time, at no time during the current period was the Company, any of its subsidiaries, its holding company or any subsidiaries of the Company's holding company a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate. For the sake of completeness, as mentioned in the section headed "Business Review — Discussion and Analysis — Key Relationships with Customers, Suppliers and Employees — Key Relationships with Employees" of this report of the directors, when the Proposed Subsidiary Share Option Schemes are duly approved by the Company's shareholders at the forthcoming annual general meeting of the Company, the employees and third party service providers who are eligible to participate in the Proposed Subsidiary Share Option Schemes include (among others) the executive directors of the Company upon and subject to the terms and conditions set out therein. For details, please refer to the Company's circular as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

Summary of Principal Terms of Existing Share Option Scheme

The purpose of the Existing Share Option Scheme is to attract skilled and experienced personnel, to incentivise them to remain with the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

Subject to the terms of the Existing Share Option Scheme, the Board (or its duly authorised officer(s) or delegate(s)) may, at its/their absolute discretion, offer any employees, management members and directors of the Company, or any of its subsidiaries, and third party service providers, including employees of Hon Hai and its subsidiaries (collectively, the "Eligible Persons"), options to subscribe for shares on the terms set out in the Existing Share Option Scheme.

The total number of shares in respect of which options may be granted under the Existing Share Option Scheme shall be 757,380,227 shares, representing approximately 9.37% of the total number of issued shares of the Company as at the date of this report of the directors.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of the Company from time to time.

The minimum period for which the options must be held before they can be exercised and the period within which the options must be exercised (the "vesting period") will be specified by the Board (or its duly authorised officer(s) or delegate(s)) at the time of the offer of grant. The vesting period is up to six years (or such other period which must not be more than 10 years from the date of grant of the relevant options) as determined by the Board (or its duly authorised officer(s) or delegate(s)) at the time of granting the relevant options. An offer of grant of an option must be accepted by the date being a date not more than 30 days after the date of the offer. The amount payable on acceptance of an offer is HK$1.00.

The subscription price for shares in respect of an option grant shall be the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Since its adoption, no option has been granted under the Existing Share Option Scheme.

Please also refer to note 39 to the consolidated financial statements.

Information on Existing Share Scheme

The purpose of the Existing Share Scheme is to attract skilled and experienced personnel, to incentivise them to remain with the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

The Existing Share Scheme is not subject to the provisions of Chapter 17 of the Listing Rules. Notwithstanding this, in order to facilitate the evaluation of the use of the Existing Share Scheme, appropriate disclosures are made below with reference to applicable requirements laid down by Chapter 17 of the Listing Rules.

The Existing Share Scheme provides (among other things) that: (a) for grants to the beneficiaries who are not connected persons (as defined in the Listing Rules) of the Company, the trustee for the Existing Share Scheme (being a professional institution) shall subscribe, on behalf of the beneficiaries, for new shares at nominal value from the Company; and (b) for grants to the beneficiaries who are connected persons of the Company, the trustee shall purchase, on behalf of the beneficiaries, shares from the market.

The Board (or its duly authorised officer(s) or delegate(s)) may determine as to which of the Eligible Persons should be entitled to receive grants of shares under the Existing Share Scheme, together with the number of shares to which each proposed beneficiary should be entitled.

In accordance with the Existing Share Scheme, the maximum number of shares which may be subscribed for by the trustee on behalf of the beneficiaries who are not connected persons of the Company, during the period between one annual general meeting and the subsequent annual general meeting, must not exceed 2% of the Company's total number of issued shares as at the date of the earlier annual general meeting. There is no maximum number of shares to be purchased by the trustee on behalf of the beneficiaries who are connected persons of the Company. However, if any proposed grant of shares to any connected person would result in the total number of shares granted and to be granted to such connected person during the 12-month period immediately preceding the date of such proposed grant exceeding 1% of the total number of issued shares of the Company as at the date of such proposed grant, then such proposed grant must be approved by the shareholders of the Company in general meeting, at which such connected person and his/her associates (as defined in the Listing Rules) shall abstain from voting.

The shares granted will be subject to lock-up periods of up to three years commencing from the date of grant, which will vary from beneficiary to beneficiary as to be determined by the Board (or its duly authorised officer(s) or delegate(s)). An offer of grant of shares (in respect of which no consideration is payable) must be accepted by the date being a date not more than 30 days after the date of the offer.

At the Company's annual general meeting held on 22 May 2020, an ordinary resolution was passed to grant a general mandate to the Board (or its duly authorised officer(s) or delegate(s)) to allot, issue and deal with additional shares under the Existing Share Scheme not exceeding 2% of the total number of issued shares of the Company as at the date of such meeting, amounting to an aggregate of 164,060,000 shares.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 1 November 2016, the Company offered 101,168,760 ordinary shares to a total of 1,807 beneficiaries pursuant to the Existing Share Scheme, which shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer of the shares. 91,551,539 ordinary shares were issued on 1 November 2016 and 9,617,221 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2016.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 22 November 2017, the Company offered 118,595,820 ordinary shares to a total of 869 beneficiaries pursuant to the Existing Share Scheme, of which 114,343,918 ordinary shares were granted without lock-up periods, while the remaining ordinary shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer of the shares. 106,053,805 ordinary shares were issued on 22 November 2017 and 12,542,015 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2017.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 28 November 2017, the Company offered 2,171,795 ordinary shares to a total of 13 beneficiaries pursuant to the Existing Share Scheme without lock-up periods. No consideration was payable on acceptance of offer of the shares. 2,171,795 ordinary shares were issued on 28 November 2017.

Pursuant to the approval of the Board on 15 November 2018, the Company offered 146,963,583 ordinary shares to a total of 191 beneficiaries pursuant to the Existing Share Scheme, of which 143,711,681 ordinary shares were granted without lock-up periods, while the remaining ordinary shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer of the shares. 120,594,615 ordinary shares were issued on 15 November 2018 and 26,368,968 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2018.

During both the year ended 31 December 2019 and the current period, no shares of the Company were granted under the Existing Share Scheme.

At the forthcoming annual general meeting of the Company, an ordinary resolution will be proposed to grant a general mandate to the Board (or its duly authorised officer(s) or delegate(s)) to allot, issue and deal with additional shares under the Existing Share Scheme not exceeding 2% of the total number of issued shares of the Company as at the date of such meeting (the "Scheme Mandate").

As at 26 March 2021, the total issued share capital of the Company comprised 8,084,818,000 shares of US$0.04 each. Subject to the passing of an ordinary resolution approving the Scheme Mandate and on the basis that no shares will be issued, purchased or bought back prior to the forthcoming annual general meeting, exercise in full of the Scheme Mandate will result in 161,696,360 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$1.13 per share as at 26 March 2021 and the Scheme Mandate being exercised in full, the aggregate market value of the 161,696,360 shares to be allotted and issued pursuant thereto would be approximately HK$182,716,886. The Company expects that the costs attributable to the grant of any shares under the Existing Share Scheme will be accounted for by reference to the market value of such shares at the time of grant. The Company will give due consideration to any financial impact arising from the grant of shares under the Existing Share Scheme before exercising the Scheme Mandate.

Please also refer to note 39 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the current period, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 96.5% of the Group's total revenue from sales of goods and rendering of services for the current period and revenue from sales of goods and rendering of services to the Group's largest customer amounted to approximately 31.2%. Purchases from the Group's five largest suppliers accounted for approximately 67.5% of the Group's total purchases for the current period and purchases from the Group's largest supplier amounted to approximately 28.6%.

None of the directors of the Company or any of their close associates (as defined in the Listing Rules) or any shareholder (which, to the best knowledge of the directors, owns more than 5% of the total number of issued shares of the Company as at the date of this report of the directors) had any interest in any of the Group's five largest customers and five largest suppliers, except that: (a) Dr. KUO Wen-Yi, an executive director of the Company, has a very insignificant interest in one of the Group's five largest suppliers being a listed company, representing around 0.000013% of the total number of the outstanding shares of such supplier as at 1 February 2021 (as disclosed in its latest published quarterly report); and (b) on the basis that the Hon Hai Technology Group is one of the Group's five largest suppliers as well as one of the Group's five largest customers, Mr. CHIH Yu Yang and Dr. KUO Wen-Yi, both being executive directors of the Company, have interests in Hon Hai as more particularly described in the section headed "Disclosure of Interests" of this report of the directors.

For related matters, please refer to the "Key Relationships with Customers, Suppliers and Employees" section above.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company (other than service contracts with any director or any person engaged in the full-time employment of the Company) were entered into or existed during the current period.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of the annual report incorporating this report of the directors, to the best knowledge of the directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period and up to the date of this report of the directors, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 17 April 2020) duly approved by the Company's shareholders at the Company's annual general meeting held on 22 May 2020, the Company bought back in multiple batches a total of 118,182,000 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK$115,716,150.00. Among these shares so bought back, 17,580,000 shares and 40,420,000 shares were cancelled on 7 September 2020 and 9 October 2020 respectively, whereas 25,364,000 shares and 34,818,000 shares were cancelled on 7 January 2021 and 29 January 2021 respectively, in all 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 17 April 2020.

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$
11 August 2020	1,000,000	0.89	0.89	890,000.00
12 August 2020	1,000,000	0.89	0.89	890,000.00
13 August 2020	500,000	0.90	0.90	450,000.00
14 August 2020	35,000	0.90	0.90	31,500.00
17 August 2020	500,000	0.90	0.90	450,000.00
18 August 2020	582,000	0.90	0.89	522,980.00
19 August 2020	1,557,000	0.88	0.88	1,370,160.00
20 August 2020	1,000,000	0.87	0.86	865,000.00
21 August 2020	1,587,000	0.89	0.88	1,406,560.00
24 August 2020	1,066,000	0.90	0.89	950,740.00
25 August 2020	1,000,000	0.89	0.89	890,000.00
26 August 2020	680,000	0.90	0.88	602,000.00
27 August 2020	2,200,000	0.89	0.89	1,958,000.00
28 August 2020	2,373,000	0.90	0.90	2,135,700.00
31 August 2020	2,500,000	0.89	0.89	2,225,000.00
1 September 2020	825,000	0.92	0.91	756,750.00
2 September 2020	1,461,000	0.92	0.91	1,338,510.00
3 September 2020	2,000,000	0.91	0.91	1,820,000.00
4 September 2020	3,000,000	0.91	0.90	2,724,000.00
7 September 2020	1,500,000	0.91	0.91	1,365,000.00
8 September 2020	2,000,000	0.91	0.90	1,810,000.00
9 September 2020	1,600,000	0.91	0.91	1,456,000.00
10 September 2020	1,500,000	0.91	0.90	1,353,000.00
14 September 2020	500,000	0.91	0.91	455,000.00
15 September 2020	428,000	0.96	0.96	410,880.00
16 September 2020	252,000	0.96	0.96	241,920.00
17 September 2020	1,402,000	0.99	0.98	1,381,960.00
21 September 2020	2,978,000	1.04	1.03	3,077,340.00
22 September 2020	1,534,000	1.03	1.03	1,580,020.00
24 September 2020	4,975,000	1.08	1.04	5,296,260.00
25 September 2020	6,300,000	1.07	1.02	6,573,550.00
28 September 2020	1,754,000	1.05	1.03	1,821,700.00
29 September 2020	1,204,000	1.08	1.06	1,293,600.00
30 September 2020	5,207,000	1.11	1.07	5,628,700.00
14 December 2020	1,000,000	0.80	0.80	800,000.00
16 December 2020	3,000,000	0.82	0.82	2,460,000.00
17 December 2020	3,000,000	0.84	0.84	2,520,000.00
18 December 2020	3,500,000	0.84	0.83	2,930,000.00

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$
22 December 2020	2,500,000	0.83	0.82	2,060,000.00
23 December 2020	2,174,000	0.84	0.83	1,815,280.00
24 December 2020	826,000	0.84	0.84	693,840.00
28 December 2020	4,500,000	0.85	0.85	3,825,000.00
29 December 2020	4,864,000	0.87	0.85	4,181,760.00
6 January 2021	3,130,000	0.98	0.98	3,067,400.00
7 January 2021	3,119,000	1.00	0.98	3,076,620.00
8 January 2021	5,882,000	1.00	0.99	5,831,180.00
11 January 2021	4,455,000	1.03	1.00	4,485,000.00
12 January 2021	4,000,000	1.03	1.03	4,120,000.00
13 January 2021	1,500,000	1.03	1.03	1,545,000.00
18 January 2021	4,100,000	1.25	1.20	5,059,000.00
19 January 2021	3,000,000	1.27	1.26	3,800,000.00
20 January 2021	632,000	1.32	1.32	834,240.00
21 January 2021	2,000,000	1.32	1.31	2,630,000.00
22 January 2021	3,000,000	1.33	1.31	3,960,000.00
	118,182,000			115,716,150.00

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 11 August 2020 to 1 February 2021 (both dates inclusive).

The Board believes that the value of the Company's shares traded on-market was undervalued. Accordingly, the Board is of the view that the above share buy-backs are 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the amended and restated memorandum and articles of association of the Company and the Companies Act of the Cayman Islands (as amended from time to time).

PENSION SCHEMES

Details of the Group's pension schemes and the basis of calculation are set out in note 38 to the consolidated financial statements.

AUDIT COMMITTEE

The Company has established and maintained an audit committee in accordance with the requirements of the Listing Rules, particularly the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (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 current period and the annual report incorporating this report of the directors and recommended the same to the Board for approval.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the current period, in compliance with the code provisions set out in the CG Code.

For more details, please refer to the Company's 2020 corporate governance report, which forms part of the annual report incorporating this report of the directors.

AUDITOR

The consolidated financial statements have been audited by the Company's auditor, Deloitte Touche Tohmatsu who is due to retire and, being eligible, will offer itself for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

CHIH Yu Yang
Acting Chairman

26 March 2021

Deloitte. 德勤

TO THE SHAREHOLDERS OF FIH MOBILE LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of FIH Mobile Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 92 to 170, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of unlisted equity investment in relation to HMD global Oy ("HMD")	
We identified fair value measurement of unlisted equity investment in relation to HMD as a key audit matter due to the involvement of estimation uncertainty over the assumptions. As disclosed in notes 4 and 18 to the consolidated financial statements, in determining the fair value of unlisted equity investment in relation to HMD, the Group engaged an independent professional valuer to perform the valuation based on the cash flow projection for the estimated future cash flow discounted to its present value, which required 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. After making the above assessment, the fair value of unlisted equity investment in relation to HMD is determined as US$169,500,000 as at 31 December 2020.	Our procedures in relation to evaluating the appropriateness of the management's fair value measurement of unlisted equity investment in relation to HMD included: • Understanding how the Group's management determines the fair value of unlisted equity investment in relation to HMD, including the valuation model adopted, key assumptions used and the involvement of independent professional valuers appointed by the Group; • Evaluating the competence, capability and objectivity of the valuers; • Evaluating the historical accuracy of the financial budgets prepared by the HMD's management by comparing the historical budgets with the actual performance; • Evaluating the reasonableness of the budgeted sales and gross margin by considering the relevant industry growth forecast, the financial budgets and business plan approved by the management of HMD and the Group management's expectation for the market development with reference to the available industry and market data; and • Engaging our valuation expert to evaluate the appropriateness of the valuation model adopted and the key assumptions used.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Allowance for inventories	
We identified allowance for inventories as a key audit matter due to the critical judgment exercised by the Group's management in identifying the slow-moving and obsolete inventories and assessing the amount of allowance for inventories. As disclosed in note 4 to the consolidated financial statements, the Group's management reviews the future sales plan and the inventory aging list to identify slow-moving and obsolete inventories that are no longer suitable for use in operation and then estimates the net realisable value based on the estimated selling prices and market condition to the extent that such condition exists at the end of reporting period, less the estimated cost of completion and costs necessary to make the sale. As at 31 December 2020, the carrying amount of inventories, net of allowance, was US$608,697,000 and written-down on inventories of US$59,289,000 was recognised for the year ended 31 December 2020 to write-down relevant inventories to net realisable value.	Our procedures in relation to evaluating the appropriateness of the allowance for inventories included: • Understanding how the Group's management identifies the slow-moving and obsolete inventories and assesses the amount of allowance for inventories; • Understanding and evaluating the appropriateness of the basis of identification of the slow-moving and obsolete inventories; • Engaging the component auditors to test the accuracy of the aging analysis of inventories, on a sample basis; • Engaging the component auditors to evaluate the historical accuracy of allowance for inventories by comparing the actual loss to historical allowance recognised; and • Engaging the component auditors to assess the reasonableness of the amount of allowance for inventories, on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in the independent auditor's report is Chu, Johnny Chun Yin.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	**2020 US$'000**	2019 US$'000
Continuing operations			
Revenue	*5*	**8,934,746**	14,378,658
Cost of sales		**(8,839,541)**	(14,125,379)
Gross profit		**95,205**	253,279
Other income, gains and losses	*6*	**159,161**	142,740
Impairment loss recognised for property, plant and equipment		**(29,650)**	(3,105)
Selling expenses		**(15,159)**	(17,161)
General and administrative expenses		**(178,212)**	(192,486)
Research and development expenses		**(172,412)**	(157,627)
Interest expenses		**(12,184)**	(37,546)
Share of profit of associates		**4,274**	7,316
Share of profit of joint ventures		**–**	5
Loss before tax	*7*	**(148,977)**	(4,585)
Income tax expense	*10*	**(24,859)**	(27,932)
Loss for the year from continuing operations		**(173,836)**	(32,517)
Discontinued operation			
Profit for the year from discontinued operation	*11*	**–**	20,339
Loss for the year		**(173,836)**	(12,178)
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Fair value gain on investments in equity instruments at fair value through other comprehensive income		**40,589**	3,651
Remeasurement of defined benefit pension plans		**241**	17
		40,830	3,668
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**122,417**	(38,814)
Share of translation reserve of associates		**2,030**	(348)
Share of translation reserve of joint ventures		**–**	(21)
		124,447	(39,183)
Other comprehensive income (expense) for the year, net of income tax		**165,277**	(35,515)
Total comprehensive expense for the year		**(8,559)**	(47,693)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020** **US$'000**	2019 US$'000
(Loss) profit for the year attributable to owners of the Company			
— from continuing operations		**(173,939)**	(32,632)
— from discontinued operation		**–**	20,339
Loss for the year attributable to owners of the Company		**(173,939)**	(12,293)
Profit for the year attributable to non-controlling interests			
— from continuing operations		**103**	115
		(173,836)	(12,178)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(9,081)**	(47,868)
Non-controlling interests		**522**	175
		(8,559)	(47,693)
Loss per share	*13*		
From continuing and discontinued operations			
Basic		**(US2.13 cents)**	(US0.15 cent)
From continuing operations			
Basic		**(US2.13 cents)**	(US0.40 cent)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 US$'000	2019 US$'000
Non-current assets			
Property, plant and equipment	14	**887,955**	991,237
Right-of-use assets	15	**79,825**	72,700
Investment properties	16	**17,142**	3,965
Financial assets at fair value through profit or loss	17		
— Equity instruments		**–**	3,739
— Convertible notes		**–**	666
Financial assets at fair value through other comprehensive income	18		
— Equity instruments		**205,549**	124,128
Interests in associates	19	**34,244**	27,940
Interests in joint ventures	20	**–**	–
Deferred tax assets	21	**20,383**	19,567
Deposit for acquisition of right-of-use assets		**29,214**	27,327
		1,274,312	1,271,269
Current assets			
Inventories	22	**608,697**	795,821
Trade and other receivables	23	**2,354,227**	3,299,023
Financial assets at fair value through profit or loss			
— Short-term investments	17	**–**	71,939
Bank deposits	30	**15,506**	19,200
Bank balances and cash	30	**1,779,332**	1,545,269
		4,757,762	5,731,252
Current liabilities			
Trade and other payables	24	**2,760,474**	4,007,915
Contract liabilities		**115,668**	140,249
Lease liabilities	25	**4,773**	20,150
Bank borrowings	26	**929,068**	605,728
Provision	31	**9,499**	13,185
Tax payable		**89,804**	76,860
		3,909,286	4,864,087
Net current assets		**848,476**	867,165
Total assets less current liabilities		**2,122,788**	2,138,434

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 US$'000	2019 US$'000
Capital and reserves			
Share capital	27	**325,800**	328,456
Reserves	28	**1,749,632**	1,766,030
Equity attributable to owners of the Company		**2,075,432**	2,094,486
Non-controlling interests		**6,636**	6,114
Total equity		**2,082,068**	2,100,600
Non-current liabilities			
Deferred tax liabilities	21	**11,504**	13,106
Deferred income	32	**9,778**	18,891
Lease liabilities	25	**19,438**	5,837
		40,720	37,834
		2,122,788	2,138,434

The consolidated financial statements on pages 92 to 170 were approved and authorised for issue by the board of directors on 26 March 2021 and are signed on its behalf by:

CHIH YU YANG
DIRECTOR

MENG HSIAO-YI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Shares bought-back pending cancellation US$'000	Special reserve US$'000 *(note 28)*	Revaluation reserve US$'000 *(note b)*	Other reserve US$'000 *(note a)*	Legal reserve US$'000 *(note 28)*	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2019	328,563	1,203,407	–	15,514	(48,526)	(998)	168,899	26,576	450,907	2,144,342	5,939	2,150,281
(Loss) profit for the year	–	–	–	–	–	–	–	–	(12,293)	(12,293)	115	(12,178)
Other comprehensive income (expense) for the year	–	–	–	–	3,651	17	–	(39,243)	–	(35,575)	60	(35,515)
Total comprehensive income (expense) for the year	–	–	–	–	3,651	17	–	(39,243)	(12,293)	(47,868)	175	(47,693)
Repurchase of ordinary shares *(note 27)*	–	–	(1,988)	–	–	–	–	–	–	(1,988)	–	(1,988)
Cancellation of ordinary shares *(note 27)*	(107)	(327)	434	–	–	–	–	–	–	–	–	–
Profits appropriations	–	–	–	–	–	–	4,082	–	(4,082)	–	–	–
Balance at 31 December 2019	**328,456**	**1,203,080**	**(1,554)**	**15,514**	**(44,875)**	**(981)**	**172,981**	**(12,667)**	**434,532**	**2,094,486**	**6,114**	**2,100,600**
(Loss) profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(173,939)**	**(173,939)**	**103**	**(173,836)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**40,589**	**241**	**–**	**124,028**	**–**	**164,858**	**419**	**165,277**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**40,589**	**241**	**–**	**124,028**	**(173,939)**	**(9,081)**	**522**	**(8,559)**
Repurchase of ordinary shares *(note 27)*	**–**	**–**	**(9,973)**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,973)**	**–**	**(9,973)**
Cancellation of ordinary shares *(note 27)*	**(2,656)**	**(6,125)**	**8,781**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profits appropriations	**–**	**–**	**–**	**–**	**–**	**–**	**1,788**	**–**	**(1,788)**	**–**	**–**	**–**
Balance at 31 December 2020	**325,800**	**1,196,955**	**(2,746)**	**15,514**	**(4,286)**	**(740)**	**174,769**	**111,361**	**258,805**	**2,075,432**	**6,636**	**2,082,068**

Notes:

(a) The amount represents the remeasurement of defined benefit pension plans and the other reserve arising from the effects of changes in ownership in certain subsidiaries when there was no change in control.

(b) The amount represents the change in fair value of equity investments classified as financial assets at fair value through other comprehensive income.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 US$'000	2019 US$'000
OPERATING ACTIVITIES		
Loss for the year	**(173,836)**	(12,178)
Adjustments for:		
Income tax	**24,859**	28,485
Depreciation and amortisation	**196,278**	195,369
Written-down of inventories	**59,289**	103,990
Loss on disposal and write-off of property, plant and equipment	**12,945**	6,363
Gain on disposal of land use right classified as right-of-use assets	**–**	(1,207)
Gain on disposal of an associate	**–**	(450)
Gain on liquidation of investment in a joint venture	**(2,356)**	–
Interest expenses	**12,184**	38,278
Share of profit of associates	**(4,274)**	(7,316)
Share of profit of joint ventures	**–**	(5)
Impairment loss recognised (reversed) in respect of trade receivables, net	**5,956**	(187)
Impairment loss recognised for property, plant and equipment	**29,650**	3,105
Impairment loss recognised for interests in a joint venture	**–**	2,374
Deferred income recognised to income	**(9,880)**	(1,630)
Net fair value gain arising on short-term investments at fair value through profit or loss	**(2,383)**	(9,099)
Net fair value gain arising on equity instruments at fair value through profit or loss	**(1,585)**	(2,567)
Interest income	**(34,732)**	(35,282)
Gain on disposal of investment property	**(626)**	–
Operating cash flows before movements in working capital	**111,489**	308,043
Decrease in inventories	**147,655**	476,925
Decrease (increase) in trade and other receivables	**538,048**	(326,835)
Decrease in trade and other payables	**(1,406,552)**	(994,047)
(Decrease) increase in contract liabilities	**(24,958)**	120,374
Decrease in provision	**(4,158)**	(47,464)
Proceeds from disposal of financial assets at fair value through profit or loss	**529,054**	1,209,034
Cash (used in) from operations	**(109,422)**	746,030
Income taxes paid, net	**(15,568)**	(26,539)
Interest received	**36,082**	34,508
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(88,908)**	753,999

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 US$'000	2019 US$'000
INVESTING ACTIVITIES		
Purchase of short-term investments	**(355,740)**	(1,039,932)
Purchase of property, plant and equipment	**(101,735)**	(210,145)
Purchase of equity instruments at fair value through other comprehensive income	**(1,480)**	(1,131)
Proceeds on settlements of short-term investments	**431,016**	1,414,156
Proceeds from disposal of equity instruments at fair value through profit or loss	**5,324**	11,910
Proceeds on disposal of property, plant and equipment	**3,790**	10,272
Withdrawal of bank deposits for investing purpose	**3,056**	45,635
Distribution from a joint venture upon liquidation	**2,356**	–
Proceeds from disposal of land use right classified as right-of-use assets	**919**	4,847
Proceeds from disposal of investment property	**772**	–
Purchase of convertible notes	**–**	(666)
Proceeds from disposal of an associate	**–**	150
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(11,722)**	235,096
FINANCING ACTIVITIES		
Bank borrowings raised	**5,046,888**	4,786,235
Bank borrowings repaid	**(4,723,535)**	(5,604,498)
Repayments of lease liabilities	**(21,378)**	(10,473)
Interest on bank borrowings paid	**(12,196)**	(39,165)
Payments on repurchase of ordinary shares	**(9,973)**	(1,988)
Interest on lease liabilities paid	**(1,266)**	(1,019)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**278,540**	(870,908)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**177,910**	118,187
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,545,269**	1,418,569
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**56,153**	8,513
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	**1,779,332**	1,545,269

1. GENERAL

FIH Mobile Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 8 February 2000 under the Companies Act of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 3 February 2005. The Company's parent company is Foxconn (Far East) Limited (incorporated in the Cayman Islands) and its ultimate holding company is Hon Hai Precision Industry Co. Ltd. ("Hon Hai") (incorporated in Taiwan and its shares are listed on the Taiwan Stock Exchange Corporation). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. The Group provides a wide range of manufacturing services, to its customers in connection with the production of handsets. From 1 January 2019, the Group ceased its distribution business, details of which are set out in note 11. The principal activities of its principal subsidiaries are set out in note 40.

The consolidated financial statements are presented in United States Dollars ("US$") which is also the functional currency of the Company.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the "Amendments to References to the Conceptual Framework in IFRS Standards" and the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the "Amendments to References to the Conceptual Framework in IFRS Standards" and amendments to IFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

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 and the related Amendments[1]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

Except for the 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.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 "Financial Instruments: Presentation".

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendments to IAS 16 Property, Plant and Equipment — Proceeds before Intended Use

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with IAS 2 "Inventories" ("IAS 2").

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36 "Impairment of Assets" ("IAS 36").

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation of consolidated financial statements *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each item of other comprehensive income ("OCI") are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Basis of consolidation *(Continued)*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and OCI of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and OCI are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Investments in associates and joint ventures *(Continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When an objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any assets, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9 "Financial Instruments" ("IFRS 9"), the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in OCI in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in OCI by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in OCI relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A point in time revenue recognition

The revenue of the Group is recognised at a point in time. Under the transfer-of-control approach in IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"), revenue from manufacturing services to the Group's customers in connection with the production of handsets are recognised when the goods are passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (including sales of goods and processing service), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group as a lessee

Allocation of consideration to components of a contract
For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease component as a single lease component.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to leases of properties, machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Right-of-use assets
The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits
Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Lease modifications
The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

The Group as a lessor

Classification and measurement of leases
Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Refundable rental deposits
Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease
When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification
Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which are recognised initially in OCI and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates/joint ventures.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US$) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in OCI and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial assets), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

All borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income, gains and losses".

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others who provide similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of services received determined by reference to the fair value of share options or ordinary shares granted at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options or ordinary shares granted vest immediately, with a corresponding increase in equity (share compensation reserve). The fair value of the ordinary shares granted shall be measured at the market price of the shares, and the fair value of the share options granted shall be estimated by applying an option pricing model.

At the end of the reporting period, the Group revises its estimates of the number of options or ordinary shares that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to share compensation reserve.

When the share options are exercised, the amount previously recognised in share compensation reserve will be transferred to share premium. When the share options are forfeited or cancelled after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share compensation reserve will be transferred to retained profits.

When new ordinary shares are issued pursuant to the award scheme, the fair value of the ordinary shares granted that vest immediately or without lock-up period is recognised as an expense in full at the grant date with corresponding increase in equity (share compensation reserve). When the ordinary share awards are granted with lock-up period, which has same meaning as vesting period, the fair value of such amounts granted at the grant date is expensed on a straight-line basis over the lock-up period.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in OCI or directly in equity, in which case the current and deferred tax is also recognised in OCI or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Freehold land is depreciated and measured at cost less subsequent accumulated impairment losses.

Properties in the course of construction for production or for its own purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress and freehold land) over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties also include lease properties which are being recognised as right-of-use assets and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, such transfer does not change the carrying amount of the property transferred.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Impairment losses on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any.

The recoverable amounts of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Impairment losses on property, plant and equipment and right-of-use assets *(Continued)*

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or a financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets of the Group are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is not held for trading.

A financial asset is held-for-trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

(i) Amortised cost and interest income
Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")
Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

(iii) Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables, bank deposits and bank balances) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk
In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(i) Significant increase in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. Trade receivables that are credit-impaired are assessed for ECL individually. For other trade receivables, the Group uses a practical expedient in estimating ECL using a provision matrix taking into consideration historical credit loss experience, and forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortised cost

The Group's financial liabilities including bank borrowings and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract are entered into and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Timing of revenue recognition

In determining the timing of revenue recognised for manufactured goods, the directors of the Company have considered the Group have no enforceable right to payment for performance completed to date based on its legal advisor's opinion. In cases where the Group's right has changed, the timing of recognition of such revenue may vary.

Significant influence over interest in an associate

Although the Group has less than 20% equity interests in Diabell Co., Ltd. ("Diabell"), the management considers the Group has significant influence over Diabell by virtue of its right to appoint one out of five directors to the board of directors of Diabell (see note 19).

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurement of unlisted equity securities at FVTOCI

In determining the fair values of unlisted equity securities at FVTOCI as disclosed in note 18, which are categorised as level 3 fair value measurement, the Group engages independent professional valuers to perform valuation based on valuation models or estimates of the fair values based on the market price in recent transactions where applicable. As disclosed in note 18, in relation to the unlisted equity securities of HMD, the amounts 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 and the Group's management's expectation for the market development where applicable. Any changes in the key assumptions may affect the amount of fair value.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Fair value measurement of unlisted equity securities at FVTOCI *(Continued)*

Whilst the Group considers these valuations are the best estimates, the ongoing COVID-19 pandemic has resulted in greater market volatility and may cause further disruptions to the investees' businesses, which have led to higher degree of uncertainties in respect of the valuations in the current year.

Estimated allowance for inventories

The Group's management reviews the future sales plan and the inventory aging list to identify slow-moving and obsolete inventories that are no longer suitable for use in operation and then estimates the net realisable value based on estimated selling prices and market condition to the extent that such condition exists at the end of reporting period, less the estimated cost of completion and costs necessary to make the sale. Where the net realisable value is less than the carrying amount, impairment loss will arise. As at 31 December 2020, the carrying amount of inventories is approximately US$608,697,000 (2019: US$795,821,000) and written-down on inventories of US$59,289,000 (2019: US$103,990,000) has recognised for the year ended 31 December 2020.

Income taxes

As at 31 December 2020, a deferred tax asset of US$6,959,000 (2019: US$7,426,000) in relation to unused tax losses of US$23,196,000 (2019: US$24,754,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of US$2,037,439,000 (2019: US$1,700,084,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

During the year ended 31 December 2020, no deferred tax has been provided for the undistributed profits of US$986,276,000 (2019: US$1,175,857,000) in subsidiaries in the People's Republic of China (the "PRC") as 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.

Deferred tax assets were recognised for other deductible temporary differences of approximately US$37,356,000 (2019: US$28,972,000) on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses. At 31 December 2020, 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$98,539,000 (2019: US$191,690,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

In cases where the actual future taxable profits generated are less or more than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or recognition takes place.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Provision of ECL for trade receivables

Trade receivables that are credit-impaired are assessed for ECL individually. For other trade receivables, the Group uses practical expedient in estimating ECL using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. Due to greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss in the current year as there is higher risk that a prolonged pandemic could led to increased credit default. The information about the ECL and the Group's trade receivables are disclosed in note 34.

Useful lives and estimated impairment of property, plant and equipment

The management determines the estimated useful lives and the residual values in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount. The recoverable amounts, being the fair value less costs to sell, of the relevant assets have been estimated individually by the Group's management. In estimating the fair value of these assets, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group will first consider and adopt Level 2 inputs where inputs can be observable, other than quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. As at 31 December 2020, the carrying amounts of property, plant and equipment were US$887,955,000 (2019: US$991,237,000), after taking into account the impairment losses of US$29,650,000 (2019: US$3,105,000) that have been recognised. Details of the impairment of property, plant and equipment are disclosed in note 14.

5. 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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

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$8,934,746,000 (2019: US$14,378,658,000) 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 11.

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 2019, contract liabilities amounted to US$20,063,000. 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

	2020 US$'000	2019 US$'000
Segment revenue (external sales)		
Asia	**7,890,795**	12,023,341
Europe	**537,306**	1,106,314
America	**506,645**	1,249,003
Total	**8,934,746**	14,378,658
Segment profit		
Asia	**78,081**	230,286
Europe	**14,602**	10,985
America	**21,426**	58,738
	114,109	300,009
Other income, gains and losses	**125,098**	78,849
Impairment loss recognised for property, plant and equipment	**(29,650)**	(3,105)
General and administrative expenses	**(178,212)**	(192,486)
Research and development expenses	**(172,412)**	(157,627)
Interest expense	**(12,184)**	(37,546)
Share of profit of associates	**4,274**	7,316
Share of profit of joint ventures	**–**	5
Loss before tax from continuing operations	**(148,977)**	(4,585)

Segment profit represents the gross profit earned 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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

	2020	2019
	US$'000	US$'000
Segment assets		
Continuing operations		
Allocated		
Asia	**1,938,352**	2,424,530
Europe	**67,738**	176,127
America	**275,506**	480,165
Total	**2,281,596**	3,080,822
Unallocated		
Property, plant and equipment	**873,061**	974,213
Inventories	**597,135**	786,374
Cash and bank deposits	**1,593,116**	1,347,301
Others	**419,945**	518,140
Corporate assets	**267,221**	179,788
Assets relating to discontinued operation	**–**	115,883
Consolidated total assets	**6,032,074**	7,002,521
Segment liabilities		
Continuing operations		
Allocated		
Europe	**763**	625
America	**28,966**	30,387
Total	**29,729**	31,012
Unallocated		
Trade and other payables	**2,732,024**	3,977,571
Others	**159,021**	198,176
Corporate liabilities	**1,029,232**	695,108
Liabilities relating to discontinued operation	**–**	54
Consolidated total liabilities	**3,950,006**	4,901,921

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

For the purposes of monitoring segment performances and allocating resources among segments, trade receivables from Asia operations are allocated to Asia, Europe and America segments based on customers' locations, 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.

Other information

Continuing operations

	Year ended 31 December 2020				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	40	1,393	100,302	101,735
Depreciation and amortisation*	151,951	730	3,015	40,582	196,278
Loss on disposal and write-off of property, plant and equipment	–	–	–	12,945	12,945
Gain on disposal of investment properties	–	–	(626)	–	(626)
Impairment loss recognised for property, plant and equipment	–	–	–	29,650	29,650
Impairment loss recognised on trade receivables	5,703	133	120	–	5,956
Provision for warranty	3,376	–	–	–	3,376
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Net fair value gain arising on short-term investments at FVTPL	–	–	–	(2,383)	(2,383)
Net fair value gain arising on equity instruments at FVTPL	–	–	–	(1,585)	(1,585)
Write-down of inventories to net realisable value	–	–	–	59,289	59,289

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information *(Continued)*

Continuing operations (Continued)

	Year ended 31 December 2019				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	88	651	209,401	210,140
Depreciation and amortisation*	148,655	848	3,460	42,267	195,230
Loss on disposal and write-off of property, plant and equipment	–	–	–	6,323	6,323
Impairment loss recognised for property, plant and equipment	–	–	–	3,105	3,105
Impairment loss reversed on trade receivables	(275)	31	74	–	(170)
Provision for warranty	12,001	–	–	–	12,001
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Net fair value gain arising on short-term investments at FVTPL	–	–	–	(9,099)	(9,099)
Net fair value gain arising on equity instruments at FVTPL	–	–	–	(2,567)	(2,567)
Write-down of inventories to net realisable value	–	–	–	103,990	103,990

* Substantially all depreciation and amortisation included in segment profit are expensed through cost of sales while the related property, plant and equipment are excluded from segment assets.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

Majority of the Group's segment revenue based on location of customers are attributed to the PRC included in Asia.

The Group's operations are located in the PRC (country of domicile), Republic of India ("India"), the United Mexican States ("Mexico"), the United States of America ("USA"), Socialist Republic of Vietnam ("Vietnam") and other countries.

Information about the Group's revenue from continuing operations from external customers and its non-current assets, both presented based on the Group's geographical location of operations are as follows:

	Revenue from external customers		Non-current assets	
	2020	2019	**2020**	2019
	US\$'000	US\$'000	**US\$'000**	US\$'000
PRC (country of domicile)	**6,625,879**	10,242,337	**765,909**	819,569
India	**2,254,338**	4,076,404	**119,967**	128,940
Mexico	**51,950**	48,052	**12,263**	12,250
Vietnam	**1,595**	5,409	**102,997**	117,562
USA	**–**	–	**1,285**	3,472
Other countries	**984**	6,456	**45,959**	41,376
	8,934,746	14,378,658	**1,048,380**	1,123,169

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2020	2019
	US\$'000	US\$'000
Customer A[1]	**2,786,111**	4,624,059
Customer B[1]	**2,339,276**	3,917,429
Customer C[1&4]	**2,292,374**	N/A[3]
Customer D[1]	**N/A[2]**	1,737,124
Customer E[1&5]	**N/A**	1,483,543

1 Revenue arising from provision of manufacturing services mainly to customers located in Asia and Europe and in connection with the production of handsets.

2 The customer did not contribute over 10% of the total sales of the Group in 2020.

3 The customer did not contribute over 10% of the total sales of the Group in 2019.

4 The customer represented Hon Hai and its subsidiaries and associates other than the members of the Group (hereinafter collectively referred to as the "Hon Hai Technology Group").

5 The customer became a wholly-owned subsidiary of Hon Hai Technology Group since 1 January 2020.

6. OTHER INCOME, GAINS AND LOSSES

	2020 US$'000	2019 US$'000
An analysis of the Group's other income, gains and losses is as follows:		
Continuing operations		
Interest income from bank deposits and bank balances	**34,732**	34,502
Service income	**34,063**	63,891
Sales of materials and scraps	**9,565**	7,597
Repairs and modifications of moldings	**28,421**	23,795
Net foreign exchange loss	**(34)**	(56,751)
Government subsidies *(note)*	**56,764**	59,938
Rental income	**8,819**	9,688
Loss on disposal and write-off of property, plant and equipment	**(12,945)**	(6,323)
Gain on disposal of investment properties	**626**	–
Distribution from a joint venture upon liquidation	**2,356**	–
Gain on disposal of land use right classified as right-of-use assets	**–**	1,207
Impairment loss recognised for interest in a joint venture	**–**	(2,374)
Impairment loss (recognised) reversed in respect of trade receivable, net	**(5,956)**	170
Net fair value gain (loss) on financial assets at FVTPL		
— short-term investments	**2,383**	9,099
— equity instruments	**1,585**	2,567
— other financial assets	**(355)**	(283)
Write-off of prepaid tooling expenses	**–**	(502)
Write-off of prepaid utilities and travelling expenses	**–**	(979)
Write-off of prepaid promotion expenses	**–**	(984)
Write-off of prepaid maintenance expenses	**–**	(1,518)
Others	**(863)**	–
	159,161	142,740

Note: This mainly represented subsidies granted for the Group's operations in the PRC. During the year, the Group recognised government grants of US$19,455,000 in respect of COVID-19-related subsidies, of which are mainly employment support scheme provided by local government.

7. LOSS BEFORE TAX

	2020 US$'000	2019 US$'000
Loss before tax for the year from continuing operations has been arrived at after charging:		
Depreciation of property, plant and equipment	**186,271**	186,944
Depreciation of right-of-use assets	**8,398**	7,339
Depreciation of investment properties	**1,609**	947
Total depreciation and amortisation	**196,278**	195,230
Less: Amount capitalised in inventories	**(158,594)**	(152,954)
Amount included in research and development expenses	**(9,647)**	(7,701)
	28,037	34,575
Staff costs		
Directors' emoluments	**1,263**	1,130
Retirement benefit scheme contributions (excluding directors)	**19,618**	23,237
Other staff costs	**454,771**	506,246
Total staff costs	**475,652**	530,613
Less: Amount capitalised in inventories	**(269,662)**	(341,701)
Amount included in research and development expenses	**(105,552)**	(80,905)
	100,438	108,007
Auditor's remuneration	**982**	1,203
Cost of inventories recognised as expense	**8,776,876**	14,009,388
Provision for warranty	**3,376**	12,001
Write-down of inventories to net realisable value	**59,289**	103,990

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive of the Company were as follows:

2020	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance-based or discretionary bonus US$'000 *(Note)*	Other emoluments: Retirement benefit scheme contributions US$'000	Total US$'000
Chih Yu Yang (also acting as the chief executive)	–	91	–	–	91
Kuo Wen-Yi	–	444	300	–	744
Lau Siu Ki	31	9	–	–	40
Daniel Joseph Mehan	31	–	–	–	31
Tao Yun Chih	31	–	–	–	31
Meng Hsiao-Yi (appointed on 30 October 2020)	–	25	–	–	25
Wang Chien Ho (retired on 30 October 2020)	–	58	243	–	301
	93	627	543	–	1,263

2019	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance-based or discretionary bonus US$'000 *(Note)*	Other emoluments: Retirement benefit scheme contributions US$'000	Total US$'000
Chih Yu Yang (also acting as the chief executive)	–	96	–	–	96
Wang Chien Ho	–	70	112	–	182
Kuo Wen-Yi	–	420	330	–	750
Lau Siu Ki	31	9	–	–	40
Daniel Joseph Mehan	31	–	–	–	31
Tao Yun Chih	31	–	–	–	31
	93	595	442	–	1,130

Note: The performance-based or discretionary bonus, including share-based payments, is determined by reference to the individual performance of the directors and approved by the remuneration committee of the Company.

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

The chief executive of the Company is also its director and therefore the emoluments of the chief executive have been disclosed above. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive director and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Neither the chief executive nor any of the directors waived any emoluments. Neither any of the directors nor the five highest paid individuals (note 9) were paid as compensation for loss of office and as incentive to join or upon joining the Group during the years ended 31 December 2020 and 2019.

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2019: one) executive director of the Company, whose emoluments are included in note 8 above. The emoluments of the remaining four (2019: four) individuals were as follows, in which one of the individuals was appointed as director during the year. Both of the director's emolument and employee's emolument of that individual were included below.

	2020 US$'000	2019 US$'000
Salaries and other benefits	**460**	540
Performance-related incentive payments	**1,370**	1,034
	1,830	1,574

Their emoluments were within the following bands:

	Number of employees	
	2020	2019
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**2**	–
HK$3,000,001 to HK$3,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**1**	1
	4	4

10. INCOME TAX EXPENSE

	2020 US$'000	2019 US$'000
Continuing operations		
Current tax		
— Hong Kong	–	–
— Other jurisdictions	33,823	26,169
	33,823	26,169
Overprovision in prior years		
— Hong Kong	–	–
— Other jurisdictions	(5,708)	(2,126)
	(5,708)	(2,126)
	28,115	24,043
Deferred tax *(note 21)*		
— Current year	(3,256)	3,889
	24,859	27,932

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% (2019: 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 2019 and 2020 respectively. Besides, two of the Company's PRC subsidiaries were 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% (2019: 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.

10. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the loss before tax as per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 US$'000	2019 US$'000
Loss before tax (from continuing operations)	**(148,977)**	(4,585)
Tax credit at the PRC income tax rate of 25% (2019: 25%) for the year *(note)*	**(37,244)**	(1,146)
Effect of different tax rates of subsidiaries	**(210)**	939
Effect of income taxed at concessionary tax rates	**616**	(6,727)
Tax effect of expenses not deductible for tax purpose	**15,081**	14,768
Tax effect of income not taxable for tax purpose	**(7,659)**	(9,008)
Tax effect of tax losses/deductible temporary differences not recognised	**61,051**	33,062
Tax effect of share of profit of associates	**(1,068)**	(1,829)
Tax effect of share of profit of joint ventures	**–**	(1)
Overprovision in prior years	**(5,708)**	(2,126)
Income tax expense for the year	**24,859**	27,932

Note: The domestic income tax rate of 25% (2019: 25%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

11. DISCONTINUED OPERATION

From 1 January 2019, the Group discontinued its distribution business. The profit for the year ended 31 December 2019 from the discontinued operation is set out below.

	2019 US$'000
Other income, gains and losses	26,423
General and administrative expenses	(4,799)
Interest expenses	(732)
Profit before tax	20,892
Income tax expense	(553)
Profit for the year	20,339

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

Interest income from bank deposits and bank balances	(780)
Staff costs	4,522
Auditor's remuneration	181
Depreciation of property, plant and equipment	139
Loss on disposal of property, plant and equipment	40
Impairment loss reversed in respect of trade receivables, net	(17)

	2020 US$'000	2019 US$'000
Net cash flow from (used in) operating activities	**38,684**	(5,727)
Net cash flow from investing activities	**–**	317
Net cash flow used in financing activities	**–**	(732)
Net cash flow	**38,684**	(6,142)

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. Included in other receivables, value-added tax receivables of US$4,665,000 was subsequently utilised in other operation of the Group during the year ended 31 December 2020.

12. DIVIDENDS

No dividend was declared or proposed for the years ended 31 December 2020 and 31 December 2019, nor has any dividend been proposed since the end of the reporting period.

13. 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:

	2020 US$'000	2019 US$'000
Loss attributable to the owners of the Company	(173,939)	(12,293)
Less: Profit for the year from discontinued operation	–	20,339
Loss for the purposes of basic loss per share from continuing operations	(173,939)	(32,632)

	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	8,149,199,475	8,212,499,287

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:

	2020 US$'000	2019 US$'000
Loss attributable to the owners of the Company		
Loss for the purposes of basic loss per share	(173,939)	(12,293)

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

From discontinued operation

Basic profit per share for the discontinued operation is US0.25 cent per share for the year ended 31 December 2019, based on the profit for the year from the discontinued operation of US$20,339,000 and the denominators detailed above for basic profit per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2019	800,754	1,043,869	120,659	30,215	1,995,497
Exchange adjustments	(10,431)	(17,979)	(776)	(477)	(29,663)
Additions	11,807	169,350	7,087	21,901	210,145
Disposals and write-off	(4,553)	(53,317)	(4,489)	(920)	(63,279)
Transfers to investment properties *(note 16)*	(300)	–	–	–	(300)
Transfers	8,559	22,064	1,501	(32,124)	–
At 31 December 2019	805,836	1,163,987	123,982	18,595	2,112,400
Exchange adjustments	34,801	62,845	3,364	(154)	100,856
Additions	7,059	65,930	4,492	24,254	101,735
Disposals and write-off	(19,793)	(155,146)	(7,264)	–	(182,203)
Transfers to investment properties *(note 16)*	(36,217)	–	–	–	(36,217)
Transfers	–	3,088	227	(3,315)	–
At 31 December 2020	791,686	1,140,704	124,801	39,380	2,096,571
DEPRECIATION AND IMPAIRMENT					
At 1 January 2019	355,509	568,780	68,815	–	993,104
Exchange adjustments	(6,008)	(9,137)	(340)	–	(15,485)
Charge for the year	48,617	126,517	11,949	–	187,083
Eliminated on disposals and write-off	(2,860)	(39,816)	(3,968)	–	(46,644)
Impairment loss recognised in profit or loss	–	3,105	–	–	3,105
At 31 December 2019	395,258	649,449	76,456	–	1,121,163
Exchange adjustments	22,431	37,622	2,368	–	62,421
Charge for the year	46,687	127,918	11,666	–	186,271
Eliminated on disposals and write-off	(18,799)	(141,302)	(5,367)	–	(165,468)
Transfer to investment properties *(note 16)*	(25,421)	–	–	–	(25,421)
Transfers	–	–	–	–	–
Impairment loss recognised in profit or loss	–	29,495	155	–	29,650
At 31 December 2020	420,156	703,182	85,278	–	1,208,616
CARRYING VALUES					
At 31 December 2020	371,530	437,522	39,523	39,380	887,955
At 31 December 2019	410,578	514,538	47,526	18,595	991,237

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Included in the land and buildings are freehold land, located in Hungary, Mexico and India, having an aggregate cost of approximately US$10,167,000 (2019: US$10,477,000). All buildings of the Group are situated outside Hong Kong.

The above items of property, plant and equipment are depreciated using the straight-line method, after taking into account their estimated residual values, over the following periods:

Freehold land	Nil
Land and buildings	Shorter of 20–40 years and the lease terms
Plant and machinery	5–10 years
Fixtures and equipment	3–5 years

At 31 December 2020, the directors of the Company appointed independent professional appraisers to perform appraisals on the Group's property, plant and equipment with impairment indicators, such as changing market environment and determined that a number of those assets were impaired. As a result, impairment losses of US$29,650,000 (2019: US$3,105,000) has been recognised in respect of plant and machinery and fixtures and equipment (2019: plant and machinery) for the year.

15. RIGHT-OF-USE ASSETS

	Leasehold land US$'000	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Total US$'000
As at 31 December 2020					
Carrying amount	39,366	18,814	21,477	168	79,825
As at 31 December 2019					
Carrying amount	42,456	5,161	24,791	292	72,700
For the year ended 31 December 2020					
Depreciation charge	1,009	4,231	2,858	300	8,398
For the year ended 31 December 2019					
Depreciation charge	1,145	3,843	2,051	300	7,339

15. RIGHT-OF-USE ASSETS *(Continued)*

	Year ended 31 December 2020 US$'000	Year ended 31 December 2019 US$'000
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16	**59,672**	78,325
Total cash outflow for leases	**82,316**	89,817
Additions to right-of-use assets	**17,897**	25,000

During the year ended 31 December 2020, the Group disposed land use rights in the PRC amounting to US$919,000 (2019: US$3,640,000). During the year ended 31 December 2020, the Group transferred right-of-use assets to investment properties amounting to US$3,650,000 as there was a change in use of the property.

For both years, the Group leases leasehold land and buildings, plant and machinery and fixtures and equipment for its operations. Lease contracts are entered into for fixed term of one to three years without extension and termination option. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease assets may not be used as security for borrowing purpose.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

During the year, the Group entered into a new lease agreement for the use of leased properties, machinery, office equipment for one to three years. On the lease commencement, the Company recognised US$17,897,000 (2019: US$25,000,000) of right-of-use assets and US$17,897,000 (2019: US$25,000,000) of lease liabilities.

The Group regularly entered into short-term leases for certain premises, motor vehicles and office equipment. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense incurred during the year.

16. INVESTMENT PROPERTIES

The Group leases out buildings under operating leases with fixed rentals payable monthly. The leases typically run for an initial period of one to three years (2019: one year), with unilateral rights to extend the lease beyond initial period held by lessees only.

As at 31 December 2020 and 31 December 2019, certain investment properties are leased to the related parties of the Group but the Group had not contracted with the related parties for any future minimum lease payments.

16. INVESTMENT PROPERTIES *(Continued)*

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	US$'000
COST	
At 1 January 2019	40,476
Exchange adjustment	(1,158)
Transfers from property, plant and equipment *(note 14)*	300
At 31 December 2019	39,618
Exchange adjustment	1,975
Disposal for the year	(224)
Transfer from property, plant and equipment *(note 14)*	36,217
Transfer from right-of-use assets	5,601
At 31 December 2020	83,187
DEPRECIATION	
At 1 January 2019	35,729
Exchange adjustment	(1,023)
Provided for the year	947
At 31 December 2019	35,653
Exchange adjustment	1,489
Provided for the year	1,609
Disposal for the year	(78)
Transfer from property, plant and equipment *(note 14)*	25,421
Transfer from right-of-use assets	1,951
At 31 December 2020	66,045
CARRYING VALUES	
At 31 December 2020	17,142
At 31 December 2019	3,965

The fair value of the Group's investment properties at 31 December 2020 was US$82,502,000 (2019: US$11,595,000). The fair value has been arrived at based on a valuation carried out by an independent valuer not connected with the Group. The fair value was determined by reference to recent market prices for similar properties in the same locations and conditions. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The above investment properties are depreciated using the straight-line method, after taking into account their estimated residual value, over 20 years.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2020 US$'000	2019 US$'000
Listed securities:		
— Equity securities listed in Hong Kong	–	3,739
Convertible notes *(note a)*	–	666
Short-term investments *(note b)*	–	71,939
Analysed for reporting purposes as:		
Current assets	–	71,939
Non-current assets	–	4,405
	–	76,344

Notes:

(a) During the year ended 31 December 2020, the convertible notes was converted into ordinary shares of the issued entity, which was classified as equity investments at FVTOCI upon conversion.

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

18. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 US$'000	2019 US$'000
Equity securities listed in Taiwan *(note a)*	**8,312**	4,619
Equity securities listed in USA *(note a)*	**1,755**	877
Unlisted equity securities *(note b)*	**195,482**	118,632
	205,549	124,128

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 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 Finland, 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 2020 and 2019, included in unlisted equity securities above, there is the Group's investment in 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$169,500,000 (2019: US$79,986,000).

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.

19. INTERESTS IN ASSOCIATES

	2020 US$'000	2019 US$'000
Cost of investments in associates, less impairment		
Unlisted	**12,357**	12,392
Share of post-acquisition profit and other comprehensive income, net of dividend received	**21,887**	15,548
	34,244	27,940

At 31 December 2020 and 2019, the Group had interests in the following associates:

Name of associate	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share/ interest held	Proportion of nominal value of issued capital/interest held by the Group 2020	2019	Proportion of voting power held by the Group 2020	2019	Principal activity
Diabell *(note)*	Limited company	Republic of Korea ("Korea")	Korea	Ordinary	**19.998%**	19.998%	**20%**	20%	Designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products
Rooti Labs Limited	Limited company	Cayman Islands	Taiwan	Ordinary	**26.05%**	27.55%	**26.05%**	27.55%	Research and development of wearable products
杭州耕德電子有限公司 (also known as Hangzhou Gengde Electronics Co., Ltd.)	Limited company	PRC	PRC	Equity interest	**35%**	35%	**33.33%**	33.33%	Engaging in the business of design, development and manufacturing of electronic devices and handset accessories

Note: Diabell is a private limited company established in Korea. In the opinion of the directors of the Company, the Group is able to exercise significant influence over Diabell because it has the right to appoint one out of five directors of Diabell.

Aggregate information of associates that are not individually material

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

	Year ended 31.12.2020 US$'000	Year ended 31.12.2019 US$'000
Total revenue	**359,505**	483,276
Total profit for the year	**9,700**	19,617
Total other comprehensive income	**7,798**	706
Group's share of profit and other comprehensive income of associates for the year	**6,304**	6,968

20. INTERESTS IN JOINT VENTURES

	2020 US$'000	2019 US$'000
Cost of unlisted investments in joint ventures, less impairment	**3,060**	5,663
Share of post-acquisition loss and other comprehensive expense	**(3,060)**	(5,663)
	–	–

At 31 December 2020 and 2019, the Group had interests in the following joint ventures:

Name of joint venture	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2020	2019	Proportion of voting power held by the Group 2020	2019	Principal activity
FIH RadioShack (Asia) Retail Holdings Limited ("FIH RadioShack")	Limited company	Hong Kong	PRC	Ordinary	**51%**	51%	**60%** ***(note a)***	60% *(note a)*	Sale of consumer electronics products and ancillary services
Ways Transworld Inc. *(note b)*	Limited company	Taiwan	Taiwan	Ordinary	**N/A**	50%	**N/A**	50%	Liquidated

Notes:

(a) The Group holds 51% of the paid-in capital and has the right to appoint three out of five directors of FIH RadioShack. However, FIH RadioShack is jointly controlled by the Group and the other venturer by virtue of contractual arrangements and unanimous consent of the parties sharing control is required. Therefore, FIH RadioShack is classified as a joint venture of the Group.

(b) During the year ended 31 December 2020, Ways Transworld was liquidated and an amount of US$2,356,000 was distributed to the Group and recognised in profit or loss during the year.

21. 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	Others US$'000 *(note)*	Total US$'000
At 1 January 2019	(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)
Charge (credit) to profit or loss for the year	1,090	205	(2,404)	58	(2,205)	(3,256)
Exchange adjustments	(42)	(24)	387	409	108	838
At 31 December 2020	(2,309)	(418)	7,319	(6,959)	(6,512)	(8,879)

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

21. DEFERRED TAXATION *(Continued)*

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:

	2020 US$'000	2019 US$'000
Deferred tax assets	**(20,383)**	(19,567)
Deferred tax liabilities	**11,504**	13,106
	(8,879)	(6,461)

Deferred tax assets were recognised for other deductible temporary differences of approximately US$37,356,000 (2019: US$28,972,000) on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses.

At 31 December 2020, 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$98,539,000 (2019: US$191,690,000) 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$2,060,635,000 (2019: US$1,724,838,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$23,196,000 (2019: US$24,754,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$2,037,439,000 (2019: US$1,700,084,000) 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$986,276,000 (2019: US$1,175,857,000) 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.

22. INVENTORIES

	2020 US$'000	2019 US$'000
Raw materials	**380,650**	489,341
Work-in-progress	**107,231**	156,899
Finished goods	**120,816**	149,581
	608,697	795,821

23. TRADE AND OTHER RECEIVABLES

	2020 US$'000	2019 US$'000
Trade receivables	**2,049,158**	2,860,399
Less: Allowance for credit losses	**(7,883)**	(1,593)
	2,041,275	2,858,806
Other taxes recoverable	**189,480**	288,715
Other receivables, deposits and prepayments	**123,472**	151,502
Total trade and other receivables	**2,354,227**	3,299,023

As at 1 January 2019, trade receivables from contracts with customers amounted to US$3,638,370,000.

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:

	2020 US$'000	2019 US$'000
0–90 days	**1,940,908**	2,844,143
91–180 days	**85,514**	4,605
181–360 days	**6,328**	2,905
Over 360 days	**8,525**	7,153
	2,041,275	2,858,806

Due to the COVID-19 pandemic and lockdowns in various countries, the payments from certain customers have been deferred. As at 31 December 2020, included in the Group's trade receivables balances are debtors with aggregate carrying amount of US$100,367,000 (2019: US$14,663,000) which are past due as at the reporting date. Out of the past due balances, US$9,580,000 (2019: US$10,058,000) has been past due 90 days or more and is not considered as in default based on the credit quality of the debtors. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in note 34.

24. TRADE AND OTHER PAYABLES

	2020 US$'000	2019 US$'000
Trade payables	**1,904,474**	3,200,810
Other taxes payables	**155,568**	120,138
Accrued staff costs and employee benefits	**168,218**	129,387
Others	**532,214**	557,580
	2,760,474	4,007,915

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

	2020 US$'000	2019 US$'000
0–90 days	**1,823,058**	3,018,163
91–180 days	**54,523**	158,189
181–360 days	**11,404**	10,553
Over 360 days	**15,489**	13,905
	1,904,474	3,200,810

25. LEASE LIABILITIES

	2020 US$'000	2019 US$'000
Within one year	**4,773**	20,150
Within a period of more than one year but not more than two years	**18,388**	4,388
Within a period of more than two years but not more than five years	**1,050**	1,449
	24,211	25,987
Less: Amount due for settlement within 12 months shown under current liabilities	**(4,773)**	(20,150)
Amount due for settlement over 12 months shown under non-current liabilities	**19,438**	5,837

26. BANK BORROWINGS

	2020 US$'000	2019 US$'000
Bank loans	**929,068**	605,728
Analysis of bank borrowings by currency:		
US$	**927,300**	605,000
Indian Rupee ("INR")	**1,768**	728

The bank borrowings as at 31 December 2020 are unsecured, obtained with original maturity of one to two months (2019: one to six months) and carry interest at fixed interest rate ranging from 0.72% to 5.90% (2019: 2.14% to 7.85%) per annum. Out of total bank borrowing, bank borrowing of US$65,168,000 (2019: US$255,000,000) contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 0.79% per annum (2019: 2.30% per annum).

27. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2019, 31 December 2019 and 31 December 2020	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2019	8,214,074,906	328,563
Repurchase and cancellation of shares	(2,667,000)	(107)
Balance at 31 December 2019	8,211,407,906	328,456
Repurchase and cancellation of shares	(66,407,906)	(2,656)
Balance at 31 December 2020	8,145,000,000	325,800

Note: The new shares issued in prior year rank pari passu with the existing shares in all respects.

27. SHARE CAPITAL *(Continued)*

During the year ended 31 December 2020, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	No. of ordinary shares of US$0.04 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
August	**17,580,000**	**0.90**	**0.86**	**15,638**
September	**40,420,000**	**1.11**	**0.90**	**40,384**
December	**25,364,000**	**0.87**	**0.80**	**21,286**
	83,364,000			**77,308**
				US$'000
Equivalent to				**9,973**

58,000,000 ordinary shares were cancelled upon repurchase. Remaining 25,364,000 ordinary shares were cancelled subsequently on 7 January 2021.

During the year ended 31 December 2019, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	No. of ordinary shares of US$0.04 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
November	2,167,000	1.28	1.22	2,735
December	8,907,906	1.53	1.33	12,829
	11,074,906			15,564
				US$'000
Equivalent to				1,988

2,667,000 ordinary shares were cancelled upon repurchase. Remaining 8,407,906 ordinary shares were cancelled subsequently on 7 January 2020.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during both years.

28. RESERVES

The Group's special reserve represents the difference between the paid-in capital of the subsidiaries acquired pursuant to the group reorganisation in 2004 and the nominal value of the Company's shares issued in exchange therefrom.

The Group's legal reserve represents statutory reserve attributable to the Company's subsidiaries in the PRC and Taiwan. As required by the laws in the PRC and Taiwan, appropriations are made from the profit of these subsidiaries to the legal reserve until the balance reaches 50% of the registered capital of the relevant subsidiaries. This reserve can only be used to make up losses incurred or to increase capital.

29. DERIVATIVES

Currency derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group utilises a variety of forward foreign exchange contracts to manage its exchange rate exposures. The instruments adopted are primarily to hedge the currencies used in the Group's principal markets.

During the current year, a loss from the forward foreign exchange contracts of US$3,144,000 (2019: loss of US$1,759,000) was recognised in profit or loss and included in other income, gains and losses.

At the end of the reporting period, notional amount of major outstanding forward foreign exchange contracts that the Group has committed are as below:

	2020 **US$'000**	2019 US$'000
US$	**95,000**	122,000

As at 31 December 2020, the fair value of the Group's currency derivatives is estimated to be approximately US$422,000 liabilities (2019: US$2,722,000 assets), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates, and is included as other payables (2019: other receivables) at the end of the reporting period. The contracts outstanding as at 31 December 2020 mainly related to buying of RMB and Mexican Peso ("MXN") (2019: RMB and MXN) with maturities in the first quarter of 2021 (2019: first quarter of 2020).

30. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry interest at prevailing market rate of 2.63% (2019: 4.36%) per annum on average, with original maturity of over three months.

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate of 2.41% (2019: 3.61%) per annum on average.

For the years ended 31 December 2020 and 31 December 2019, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of bank deposits and bank balances are set out in note 34.

Analysis of bank deposits and bank balances and cash by currency:

	2020 **US$'000**	2019 US$'000
US$	**345,674**	495,342
RMB	**1,233,183**	868,410
INR	**121,938**	152,065
Brazilian Real	**6,881**	8,580
New Taiwan Dollar	**68,726**	10,260
Others	**18,436**	29,812
	1,794,838	1,564,469

31. PROVISION

	2020 **US$'000**	2019 US$'000
At 1 January	**13,185**	102,719
Exchange adjustments	**472**	(111)
Provision for the year	**3,376**	12,001
Utilisation of provision/expiry	**(7,534)**	(59,465)
Settlement through non-cash transaction	**–**	(41,959)
At 31 December	**9,499**	13,185

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.

32. DEFERRED INCOME

	2020 US$'000	2019 US$'000
Government subsidies	**9,778**	18,891

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

33. CAPITAL COMMITMENTS

	2020 US$'000	2019 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**67,748**	11,110

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 US$'000	2019 US$'000
Financial assets		
Fair value through profit or loss		
Derivatives (included in other receivables)	**–**	2,722
Short-term investments	**–**	71,939
Equity instruments	**–**	3,739
Convertible notes	**–**	666
	–	79,066
Financial assets at amortised cost	**3,938,626**	4,552,792
Equity instruments at FVTOCI	**205,549**	124,128
Financial liabilities		
Fair value through profit or loss		
Derivatives (included in other payables)	**422**	–
At amortised cost		
Trade and other payables	**2,462,709**	3,794,745
Bank borrowings	**929,068**	605,728
	3,391,777	4,400,473

34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include derivatives, bank deposits, bank balances and cash, equity instruments at FVTPL/FVTOCI, convertible notes, short-term investments, trade and other receivables, trade and other payables, bank borrowings and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, other price risk and interest rate risk), credit risk and impairment assessment and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 26 for details of these bank borrowings) and lease liabilities (see note 25 for details) . The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Cash flow interest rate risk in relation to variable-rate bank balances and deposits is considered insignificant as most of them are short-term in nature. Accordingly, no interest rate sensitivity analysis is presented.

Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL and FVTOCI. For equity securities measured at FVTPL quoted in the Stock Exchange, the management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain unquoted equity securities for investees operating in mobile ecosystem industry sector for long term strategic purposes which had been designed as FVTOCI. The Group has organised an investment team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign currency risk arises when the Group's recognised assets and liabilities are denominated in a currency that is not the group entity's functional currency.

The Group manages its foreign currency exposures by non-financial techniques such as managing the transaction currency, leading and lagging payments, receivable management, etc. In addition, the Group sometimes obtains bank borrowings in various foreign currencies and enters into short-term forward foreign currency contracts (less than 3 months) for hedging purpose. The Group utilises a variety of forward foreign currency contracts to hedge its exposure to foreign currencies on a regular basis. In response to the rapid volatility in the foreign exchange market, the Group adopted a strategy of squaring RMB positions at earlier stage to reduce the currency exposure.

34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

As at 31 December 2020, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US$95,000,000 (2019: US$122,000,000), and their fair values are estimated to be approximately US$422,000 liabilities (2019: US$2,722,000 assets), and are included as other payables (2019: other receivables), at the end of the reporting period. The contracts mainly related to buying of RMB and MXN (2019: RMB and MXN) with maturities in first quarter of the following year.

The monetary assets and liabilities of group entities, which are denominated in a currency other than their respective functional currency, are mainly bank balances and cash, trade and other receivables, trade and other payables and bank borrowings, denominated in US$, and are summarised as follows:

	2020 US$'000	2019 US$'000
Assets		
US$	**966,478**	1,686,860
Liabilities		
US$	**(723,336)**	(1,571,818)

As at 31 December 2020 and 2019, no Group's bank borrowings were denominated in US$ other than the functional currency of respective group entities and were included in the monetary liabilities disclosed above.

Exchange rate sensitivity

At the end of the reporting period, in respect of monetary items (excluding derivatives) denominated in currency other than the functional currency of respective group entities, if exchange rates of the functional currency against US$ had been appreciated/depreciated by 3% (2019: 3%) and all other variables were held constant, the Group's post-tax loss would decrease/increase by approximately US$7,214,000 (2019: US$3,300,000) for the year and the Group's translation reserve would decrease/increase by US$100,734,000 (2019: US$91,153,000) for the year. In the current year, global currency market was tremendously volatile. Exchange rates of US$ versus other currencies fluctuated over the year which affected the fair values of the monetary items, such as forward foreign exchange contracts, trade and other receivables and bank borrowings of the Group, especially RMB and INR (2019: RMB and INR), RMB/US$ exchange rate ranged between 0.1402 to 0.1533 and INR/US$ exchange rate ranged between 0.0131 and 0.0141 (2019: RMB/US$ exchange rate ranged between 0.1411 and 0.1495 and INR/US$ exchange rate ranged between 0.0139 and 0.0145) in the current year. The effect of such fluctuation is closely monitored by the management of the Group to minimise the related effect on the overall result of the Group.

34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at reporting period and in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancement to cover its credit risks associated with its financial assets.

Trade receivables arising from contracts with customers

A major portion of the Group's trade receivables are receivables from industry leaders or multinational customers with good financial background. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the management considers that the Group's credit risk is significantly reduced.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 on debtors credit-impaired individually and/or based on provision matrix. Details of the quantitative disclosures are set out below in this note.

Bank deposits and bank balances

The credit risk on bank deposits and bank balances is limited because the counterparties are banks with higher credit ratings and assigned by international credit-rating agencies. The Group assessed 12m ECL for bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank deposits and bank balances is considered to be insignificant and therefore no loss allowance was recognised.

Other receivables

For other receivables and deposits, the management makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended 31 December 2020 and 2019, the Group assessed the ECL for other receivables and deposits are insignificant and thus no loss allowance is recognised.

34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount 2020 US$'000	Gross carrying amount 2019 US$'000
Financial assets at amortised cost						
Bank deposits	*30*	Ba3–Aa3	N/A	12m ECL	**15,506**	19,200
Bank balances	*30*	Ba3–A1	N/A	12m ECL	**1,779,332**	1,545,269
Other receivables	*23*	N/A	*(note a)*	12m ECL	**102,513**	129,517
Trade receivables	*23*	N/A	*(note b)*	Lifetime ECL (not credit-impaired)	**2,037,073**	2,860,399
			(note b)	(credit-impaired)	**12,085**	–

Notes:

(a) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. Based on the historical default rate, repayment history and forecast of future condition on economy and debtors, the directors of the Company considered the expected credit loss for other receivables is immaterial.

(b) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix. The Group uses debtors' past due status to assess the impairment for its customers because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. During the year ended 31 December 2020, the Group provided net impairment allowance of US$446,000 (2019: net reversal of US$187,000), based on the provision matrix.

Average loss rates of 0.01% to 8.02% (2019: 0.01% to 6.88%) were applied by the Group to the trade receivable with gross carrying amount of US$2,037,073,000 (2019: US$2,860,399,000) which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired).

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Debtor that is credit-impaired, which was evident to management the debtor was in financial difficulty, with gross carrying amount of US$12,085,000 as at 31 December 2020 (2019: nil) was assessed individually. Impairment allowance of US$5,510,000 (2019: nil) was made on this credit-impaired debtor which was the differences between the gross carrying amount and the cash flow that the Group expects to receive.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Credit impaired US$'000	Lifetime ECL (not credit-impaired) US$'000	Total US$'000
As at 1 January 2019	–	1,795	1,795
Impairment losses recognised	–	1,138	1,138
Impairment losses reversed	–	(1,325)	(1,325)
Exchange adjustments	–	(15)	(15)
As at 31 December 2019	–	1,593	1,593
Impairment losses recognised	5,510	1,344	6,854
Impairment losses reversed	–	(898)	(898)
Exchange adjustments	–	334	334
As at 31 December 2020	5,510	2,373	7,883

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are one to two months (2019: one to six months) and the maturity periods of other financial liabilities are within three months. Out of the total bank borrowings, bank borrowing of US$65,168,000 (2019: US$255,000,000) contains a repayment on demand clause.

As at 31 December 2020, the Group has available unutilised banking facilities of approximately US$1,752,948,000 (2019: US$492,300,000). There was no pledge of assets in relation to the banking facilities as at 31 December 2020 and 2019.

34. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as different levels of the fair value hierarchy into which the fair value measurements are categorised (level 1 to 3) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements.

Financial assets	Fair value as at 31.12.2020 US$'000	Fair value as at 31.12.2019 US$'000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/relationship of unobservable inputs to fair value
Equity instrument at FVTPL	**Listed equity investments — nil**	Listed equity investments — 3,739	Level 1	Quoted bid prices in an active market	N/A	N/A
Forward foreign exchange contracts classified as other payables (2019: other receivables)	**Liabilities — 422**	Assets — 2,722	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
Convertible notes	**Convertible notes — nil**	Convertible notes — 666	Level 2	Fair value derived from market value of the shares of the issuing company in recent investment transactions	N/A	N/A
Investment in interest bearing instruments classified as short-term investments classified as financial assets at FVTPL	**Investment in interest bearing instruments — nil**	Investment in interest bearing instruments — 71,939	Level 3	Income approach — discounted cash flow method was used to capture the present value of the expected return, assumed to approximate the minimum guaranteed return, based on the Group's experience with the deposits which have matured to date	N/A (2019: 3.20% per annum)	N/A (2019: The higher the expected guaranteed interest rate, the higher the fair value, and vice versa)
Equity instruments at FVTOCI	**Listed equity investments — 10,067**	Listed equity investments — 5,496	Level 1	Quoted bid prices in an active market	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments — 3,052**	Unlisted equity instruments — 1,720	Level 2	Fair value derived from market value of the shares of equity instruments in recent investment transactions	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments — 192,430**	Unlisted equity instruments — 116,912	Level 3	Income approach — discounted cash flow method was used to capture the present value of the expected return	Budged sales and gross margin taken into account the relevant industry growth forecasts and financial budgets approved by the investee's management and expectation for the market development	The higher the budgeted sales and gross margin, the higher the fair value, and vice versa
					Terminal growth rate, taking into the account the management's experience and knowledge of market conditions of the specific industries	The higher the terminal growth rate, the higher the fair value, and vice versa
					Weighted average cost of capital ("WACC") and discount for lack of control ranged from 19.08% to 40.00% and 25.50% (2019: ranged from 17.06% to 40.00% and 24.70%) respectively	The lower the WACC or discount for lack of control, the higher the fair value, and vice versa

34. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity instruments US$'000	**Short-term investments** US$'000
At 1 January 2019	93,484	454,421
Net fair value gains		
— in profit or loss	–	9,099
— in OCI	2,471	–
Purchases	–	1,039,932
Settlements	–	(1,414,156)
Transfer into level 3 *(note)*	20,941	–
Exchange adjustments	16	(17,357)
At 31 December 2019	116,912	71,939
Net fair value gains		
— in profit or loss	–	2,383
— in OCI	36,019	–
Purchases *(note 36)*	38,300	355,740
Settlements	–	(431,016)
Transfer into level 3 *(note)*	860	–
Exchange adjustments	339	954
At 31 December 2020	192,430	–

Note: For the relevant financial assets, the recent transaction prices used in prior year to determine the fair value was no longer available, therefore, the valuation method was changed and the fair value hierarchy was changed from level 2 to level 3.

For the other financial assets and financial liabilities, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

During the year ended 31 December 2019, of the total gains or losses for the period included in profit or loss, US$293,000 (2020: nil) relates to net unrealised gains of short-term investments classified as financial assets at FVTPL at the end of reporting period, which are included in "other income, gains and losses".

(d) 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.

34. FINANCIAL INSTRUMENTS *(Continued)*

(d) Financial assets and financial liabilities subject to offsetting *(Continued)*

	As at 31 December 2020		
Financial assets/liabilities subject to offsetting	**Gross amounts of recognised financial assets (liabilities) US$'000**	**Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position US$'000**	**Net amounts of financial assets presented in the consolidated statement of financial position US$'000**
Bank balances	**893,404**	**(893,404)**	**–**
Bank borrowings	**(893,404)**	**893,404**	**–**
Interest receivables	**11,543**	**(10,740)**	**803**
Interest payables	**(10,740)**	**10,740**	**–**

	As at 31 December 2019		
Financial assets/liabilities subject to offsetting	Gross amounts of recognised financial assets (liabilities) US$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position US$'000	Net amounts of financial assets presented in the consolidated statement of financial position 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	–

During the year, interest income of US$21,505,000 (2019: US$41,449,000) relating to the above arrangement was included in interest income.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payables US$'000	**Bank borrowings** US$'000 *(Note 26)*	**Lease liabilities** US$'000 *(Note 25)*	**Total** US$'000
At 1 January 2019	3,446	1,427,217	11,929	1,442,592
Financing cash flows	(39,165)	(818,263)	(11,492)	(868,920)
New lease entered	–	–	25,000	25,000
Interest expenses	37,259	–	1,019	38,278
Exchange adjustment	–	(3,226)	(469)	(3,695)
At 1 January 2020	**1,540**	**605,728**	**25,987**	**633,255**
Financing cash flows	**(12,196)**	**323,353**	**(22,644)**	**288,513**
New lease entered	**–**	**–**	**17,897**	**17,897**
Interest expenses	**10,918**	**–**	**1,266**	**12,184**
Exchange adjustment	**–**	**(13)**	**1,705**	**1,692**
At 31 December 2020	**262**	**929,068**	**24,211**	**953,541**

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2020, the Group acquired the certain equity instruments of HMD of US$38,300,000, which were settled through the current account of HMD.

During the year ended 31 December 2019, the Group entered into an arrangement with its customer under the discontinued operation to offset warranty provision and trade receivable of US$41,959,000.

37. RELATED PARTY TRANSACTIONS

(a) Other than as disclosed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties, including Hon Hai Technology Group.

	2020 US$'000	2019 US$'000
Hon Hai		
Sales of goods	293	–
Purchase of goods	59,746	6,245
Sales of property, plant and equipment	2,932	119
Purchase of property, plant and equipment	2,196	–
Lease expense — real properties *(note)*	659	641
Subcontracting income	2,160	1,267
Consolidated services and subcontracting expense	4,580	3,424
General service income	498	194
General service expense	–	1
Subsidiaries of Hon Hai		
Sales of goods	1,388,597	74,185
Purchase of goods	218,126	252,791
Purchase of property, plant and equipment	15,495	31,859
Sales of property, plant and equipment	6,223	5,653
Lease income — real properties	4,461	4,626
Lease income — non-real properties	30	27
Lease expense — real properties *(note)*	9,014	7,292
Lease expense — non-real properties *(note)*	15,121	10,326
Subcontracting income	36,048	26,769
Consolidated services and subcontracting expense	180,313	250,074
General service income	27	208
General service expense	17,675	16,004
Associates of Hon Hai		
Sales of goods	895,831	923,041
Purchase of goods	530,111	767,971
Purchase of property, plant and equipment	1,138	11,197
Sales of property, plant and equipment	261	–
Lease income — real properties	133	149
Lease income — non-real properties	192	395
Lease expense — real properties *(note)*	85	163
Lease expense — non-real properties *(note)*	609	407
Subcontracting income	26,322	13,257
Consolidated services and subcontracting expense	2,042	5,365
General service expense	–	175

Note: The amounts represent short-term lease expenses during the year.

37. RELATED PARTY TRANSACTIONS *(Continued)*

(b) At the end of the reporting period, the Group has the following balances due from/to related parties included in:

	2020 US$'000	2019 US$'000
Trade receivables:		
Hon Hai	**1,615**	1,138
Subsidiaries of Hon Hai	**700,983**	49,017
Associates of Hon Hai	**116,577**	83,153
	819,175	133,308
Other receivables:		
Hon Hai	**2,987**	–
Subsidiaries of Hon Hai	**3,716**	1,304
Associates of Hon Hai	**84**	441
	6,787	1,745
	825,962	135,053
Trade payables:		
Hon Hai	**20,002**	2,605
Subsidiaries of Hon Hai	**138,713**	261,579
Associates of Hon Hai	**118,884**	140,843
	277,599	405,027
Other payables:		
Hon Hai	**29**	71
Subsidiaries of Hon Hai	**2,779**	14,393
Associates of Hon Hai	**289**	1,448
	3,097	15,912
	280,696	420,939

Balances due from/to related parties are unsecured, interest-free and are repayable within one year.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2020 US$'000	2019 US$'000
Short-term benefits	**4,791**	3,957
Share-based payments	**–**	–
	4,791	3,957

37. RELATED PARTY TRANSACTIONS *(Continued)*

(d) During the year, the Group enter into the following transactions with associates (2019: associates and a joint venture):

	2020 US$'000	2019 US$'000
Sales of goods	**7,240**	29,441
Purchase of goods	**5,210**	2,843
Other income	**6,476**	8,907
Other expense	**5**	1,014

The amounts due to associates were US$4,123,000 (2019: amounts due from associates US$837,000), which were included in other payable (2019: other receivables) as at 31 December 2020.

38. RETIREMENT BENEFITS PLANS

Majority of the employees of the Company's subsidiaries are members of state-managed retirement benefit schemes operated by the government in the PRC. These subsidiaries in the PRC are required to contribute a specified percentage ranging from 5% to 20% of their payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

Certain subsidiaries of the Company operate defined benefit plans in Taiwan and Korea. Under the schemes, the employees are entitled to retirement benefits on attainment of a retirement age ranging from 55 to 60. The most recent actuarial valuations of plan assets and the present values of the defined benefit obligations were carried out at 31 December 2020 by independent valuers, Greatfine Wealth Management Consulting Inc. and Aon Hewitt Korea, respectively. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The principal actuarial assumptions used were as follows:

	2020	2019
Discount rate	**0.42%**	0.80%–2.23%
Expected rate of salary increases	**3.00%**	3.00%–4.00%

The actuarial valuations showed that the market value of plan assets was US$6,063,000 (2019: US$5,504,000) and that the actuarial value of these assets represented 158% (2019: 149%) of the benefits that had accrued to members.

The Group also operates a number of defined contribution schemes in other overseas locations. Arrangements for these staff retirement benefits vary from country to country and are made in accordance with local regulations and custom.

39. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

In order to ensure the continuity of a share option scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a share option scheme (the "Option Scheme") on 26 November 2013, which will expire on 25 November 2023, unless otherwise terminated in accordance with its terms.

Under the Option Scheme the board of directors of the Company or its duly authorised officer(s) or delegate(s) may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The option granted will be subject to vesting period (as determined by the board of directors of the Company or its duly authorised officer(s) or delegate(s) at the time of granting the option) of up to six years or such other period which must not be more than ten years from the date of grant of the relevant option. In addition, the Company may, from time to time, grant share options to third party service providers for services provided by them to the Group.

The total number of shares which may initially be issued upon the exercise of all options to be granted under the Option Scheme and any other share option scheme(s) (collectively, the "Option Schemes") adopted by the Company must not in aggregate exceed 10% of the total number of issued shares of the Company as of the date of listing of its shares on the Stock Exchange or the adoption date (as the case may be), i.e. must not exceed 757,380,227 shares under the Option Scheme. Subject to the approval of the shareholders of the Company in general meeting, the limit may be refreshed to 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Schemes of the Company must not in aggregate exceed 30% of the number of issued shares of the Company from time to time. The maximum number of shares of the Company in respect of which options granted and to be granted to each eligible person under the Option Schemes of the Company in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to a substantial shareholder or an independent non-executive director, or their respective associates, in the 12-month period up to and including the date of such grant in aggregate over 0.10% of total number of issued shares of the Company from time to time and have an aggregate value exceeding HK$5,000,000, such further grant of options will be required to be approved by the shareholders of the Company in general meeting.

Under the Option Schemes, options granted must be taken up within 30 days after the date of offer upon payment of HK$1.00 per offer. The Option Schemes do not contain any minimum period for which an option must be held before it can be exercised, though such minimum period may be specified by the board of directors of the Company or its duly authorised officer(s) or delegate(s) under the Option Scheme at the time of grant.

The exercise price of the Option Schemes is determined by the board of directors of the Company, and shall be the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Currently, no options have been granted under the Option Scheme. No share option is exercisable as at 31 December 2020 and 2019.

No expense in relation to the share options granted by the Company was recognised by the Group for the years ended 31 December 2020 and 2019.

39. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Other share-based payment plan

In order to ensure the continuity of a share scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a new share scheme (the "Share Scheme") on 26 November 2013 pursuant to which the Company might grant free shares to the directors or employees of the Company or its subsidiaries or third party service providers including employees of Hon Hai and any of its subsidiaries.

No shares were awarded under the Share Scheme for both years and accordingly no expense (2019: nil) was recognised during the year ended 31 December 2020.

40. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2020 and 2019:

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2020	2019	2020	2019	
Chiun Mai Communication Systems, Inc.	Limited company	Taiwan	NT$1,500,000,000	–	–	87.06%	87.06%	Design and manufacture of handsets
FIH (Hong Kong) Limited	Limited company	Hong Kong/ PRC	HK$155,146,001	–	–	100%	100%	Trading of handsets
FIH Co., Ltd.	Limited company	Taiwan	NT$1,000,000	100%	100%	–	–	Provision of services to group companies
FIH Mexico Industry SA de CV	Limited company	Mexico	MXN2,007,283,685	–	–	100%	100%	Manufacture of handsets
富智康精密組件(北京)有限公司 (FIH Precision Component (BeiJing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$68,800,000	–	–	100%	100%	Manufacture of handsets
宏訊電子工業(杭州)有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$126,800,000	–	–	100%	100%	Manufacture of handsets
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$184,720,000	–	–	100%	100%	Manufacture of handsets
S&B Industry, Inc.	Corporation	USA	US$31,817,356	–	–	100%	100%	Repair services
Success World Holdings Limited	Limited company	Hong Kong	HK$1,049,044,500	100%	100%	–	–	Investment holding

40. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2020	2019	**2020**	2019	
FIH do Brasil Indústria e Comércio de Eletrônicos Ltda.	Limited company	Brasil	BRL550,532,590	**–**	–	**100%**	100%	Manufacture of handsets
富智康(南京)通訊有限公司 (FIH (Nan Jing) Communications Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$17,500,000	**–**	–	**100%**	100%	Research and development; sales
貴州富智康精密電子有限公司	Wholly foreign owned enterprise	PRC	RMB400,000,000	**–**	–	**100%**	100%	Research and development; sales
Rising Stars Mobile India Private Limited	Limited company	India	INR23,809,449,800	**–**	–	**100%**	100%	Manufacture of handsets
富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$75,000,000	**–**	–	**100%**	100%	Manufacture of handsets
富泰京精密電子(煙台)有限公司 (Futaijing Precision Electronics (Yantai) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$20,000,000	**–**	–	**100%**	100%	Manufacture of handsets
富智康精密電子(廊坊)有限公司 (FIH Precision Electronics (Lang Fang) Co., Ltd.)	Sino-foreign jointly owned enterprise	PRC	US$475,500,000	**–**	–	**100%**	100%	Manufacture of handsets
南寧富泰宏精密工業有限公司 (Nanning Futaihong Precision Industrial Co., Ltd.*)	Sino-foreign jointly owned enterprise	PRC	US$50,000,000	**–**	–	**100%**	100%	Manufacture of handsets and communication products
衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd*)	Wholly foreign owned enterprise	PRC	RMB50,000,000	**–**	–	**100%**	100%	Manufacturing, import and export
益富可視精密工業(深圳)有限公司 (InFocus Precision Industry (Shenzhen) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	RMB200,797,664	**–**	–	**100%**	100%	Trading of handsets
Fushan Technology (Vietnam) Limited Liability Company	Limited company	Vietnam	VND682,440,000,000	**–**	–	**100%**	100%	Manufacture of handsets
FIH Singapore Trading Pte. Ltd.	Limited company	Singapore	US$19,000,000	**–**	–	**100%**	100%	Trading of handsets

* *for identification purposes only*

40. PRINCIPAL SUBSIDIARIES *(Continued)*

No debt security has been issued by any of the subsidiaries at any time during the year or is outstanding at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other insignificant subsidiaries which are mainly inactive or engaged in investment holding would, in the opinion of the directors, result in particulars of excessive length.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 **US$'000**	2019 US$'000
ASSETS		
Investments in subsidiaries	**2,239,002**	1,614,631
Other receivables	**6,867**	2,317
Prepayments	**–**	93
Amounts due from subsidiaries	**242,495**	1,079,940
Bank balances and cash	**1,759**	3,013
	2,490,123	2,699,994
LIABILITIES		
Bank borrowings	**488,600**	605,000
Other payables	**437**	1,057
	489,037	606,057
NET ASSETS	**2,001,086**	2,093,937
CAPITAL AND RESERVES		
Share capital	**325,800**	328,456
Share premium	**1,196,955**	1,203,080
Shares bought-back pending cancellation	**(2,746)**	(1,554)
Reserves	**481,077**	563,955
TOTAL EQUITY	**2,001,086**	2,093,937

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Under the Companies Act (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to approximately US$1,675,286,000 (2019: US$1,765,481,000), consisted of share premium of approximately US$1,196,955,000 (2019: US$1,203,080,000) and retained profits of approximately US$481,077,000 (2019: US$563,955,000), less shares bought-back pending cancellation of approximately US$2,746,000 (2019: US$1,554,000).

Movement in reserves

	Share premium US$'000	Shares bought-back pending cancellation US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2019	1,203,407	–	616,126	1,819,533
Loss for the year	–	–	(52,171)	(52,171)
Repurchase of ordinary shares	–	(1,988)	–	(1,988)
Cancellation of ordinary shares	(327)	434	–	107
Balance at 31 December 2019	**1,203,080**	**(1,554)**	**563,955**	**1,765,481**
Loss for the year	**–**	**–**	**(82,878)**	**(82,878)**
Repurchase of ordinary shares	**–**	**(9,973)**	**–**	**(9,973)**
Cancellation of ordinary shares	**(6,125)**	**8,781**	**–**	**2,656**
Balance at 31 December 2020	**1,196,955**	**(2,746)**	**481,077**	**1,675,286**

FINANCIAL SUMMARY

	For the year ended 31 December				
	2016 (US$'million)	2017 (US$'million)	2018 (US$'million) *(Note)*	2019 (US$'million) *(Note)*	**2020 (US$'million)**
Results					
Revenue	6,233.08	12,080.11	14,868.13	14,378.66	**8,934.75**
Profit (loss) from operations	217.85	(484.33)	(647.55)	32.96	**(136.80)**
Interest expenses	(0.94)	(11.23)	(27.61)	(37.55)	**(12.18)**
Profit (loss) before tax	216.91	(495.56)	(675.16)	(4.59)	**(148.98)**
Income tax expense	(80.70)	(29.83)	(3.91)	(27.93)	**(24.86)**
Profit (loss) after tax and before non-controlling interests	136.21	(525.39)	(679.07)	(32.52)	**(173.84)**
Non-controlling interests	2.11	(0.10)	(0.01)	(0.11)	**(0.10)**
Net profit (loss) for the year	138.32	(525.49)	(679.08)	(32.63)	**(173.94)**

	2016 (US$'million) (restated)	2017 (US$'million)	2018 (US$'million)	2019 (US$'million)	**2020 (US$'million)**
Assets and liabilities					
Total assets	6,962.65	8,787.68	8,904.36	7,002.52	**6,032.07**
Total liabilities	(3,391.90)	(5,607.96)	(6,754.08)	(4,901.92)	**(3,950.00)**
Non-controlling interests	(6.12)	(6.61)	(5.94)	(6.11)	**(6.64)**
Capital and reserves	3,564.63	3,173.11	2,144.34	2,094.49	**2,075.43**

Note: The financial information for the year 2019 and 2018 was from continuing operations.

This corporate governance report is issued as of 26 March 2021.

The Company has adopted the corporate governance compliance manual (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.

For better corporate governance, on 29 December 2020, the Board adopted the policies and procedures governing director's potential/actual conflicts of interests, pursuant to which (among other things): (1) in relation to any proposed transaction involving any Group member which may give rise to any potential/actual conflicts of interests on the part of a director of the Company with his/her duties in such capacity (the "Relevant Transaction") which is not material (as defined in such policies and procedures), any one executive director of the Company (other than the interested director) and any one independent non-executive director of the Company (other than the interested director) have been jointly authorised to consider the aforesaid potential/actual conflicts of interests and (if thought fit) to approve, ratify and confirm such non-material Relevant Transaction; and (2) in relation to any material Relevant Transaction (as defined in such policies and procedures), the Board shall convene a physical meeting at which all the independent non-executive directors of the Company (who, and whose close associates (as defined in the Listing Rules), have no material interests in such material Relevant Transaction) shall be present, at which meeting the interested director may attend (as an observer only) to the effect that his/her attendance shall not form part of the quorum, and he/she shall not participate in the discussions relating to such material Relevant Transaction and shall also abstain from voting on the resolutions proposed in respect of such material Relevant Transaction, provided that notwithstanding the foregoing, any of the other directors may request the interested director not to attend (nor observe) the whole or any part of such meeting.

The Company has applied and complied with all the code provisions set out in the CG Code during the year ended 31 December 2020 (the "year under review").

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, experience and network 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 like the COVID-19 outbreak and pandemic, 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. The balance of power and authority is ensured by the operations of the Board which comprises experienced and high-caliber individuals of diversified perspectives, with whom three being independent non-executive directors (out of the six Board members). 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.

To address the potential corporate governance issues brought by the absence of separation of the roles and in particular to reduce the potential risk of concentration of power in one individual, the Company has implemented a number of internal control measures to highlight the roles of the executive directors (other than the acting chairman) and independent non-executive directors of the Company in scrutinising the decision-making processes applicable to certain material matters of the Group and also monitoring the exercise of power by the acting chairman cum chief executive officer, including without limitation the following internal control measures:

(i) According to the Manual, the respective responsibilities, accountabilities and contributions of the Board and the Company's management has been divided through the adoption of a detailed list of matters reserved specifically for the decision of the Board (which has been reviewed by the Board annually to ensure that the list would remain appropriate to the needs of the Company), as opposed to other matters which could be delegated to the management from time to time. The list of matters reserved for the Board covers, among other things, the Group's strategy, objectives, business plans, budgets and overall management; changes in capital structure or corporate structure; approval of dividend policy and declaration of interim and final dividends, as appropriate; major investments; and approval of internal policies, codes and guidelines.

(ii) Subject to the foregoing, the Board has delegated certain aspects of its authority to the respective executive directors and/or senior management of the Company for the daily management and operations of the Group where the roles of the respective executive directors and/or senior management (who are in charge of different functions) complement the roles of Mr. Chih as the acting chairman cum chief executive officer, including without limitation the following delegation mechanism:

    (a) On 8 December 2017, the Board revised its delegation mechanism in respect of the grants of shares and share options under the Existing Share Scheme and the Existing Share Option Scheme respectively for better and smoother operation in practice, pursuant to which (among other things) the chairman/acting chairman and any one executive director of the Company (other than the chairman/acting chairman) have been jointly authorised to approve, in relation to a 12-month period, the grants of shares and share options under the Existing Share Scheme and the Existing Share Option Scheme respectively, together with the grantees and the corresponding number of grants and grant dates (subject to the groups of grantees and the maximum number of grants previously approved by the Board); and (in case the grantee is the chairman/acting chairman), any two executive directors of the Company (other than the chairman/acting chairman) would jointly determine the actual share option grants and/or share grants as well as their timing during the 12-month period, in each case upon and subject to the terms and conditions set out therein.

(b) On 29 June 2018, the Board revised its delegation of authority for better and smoother operation in practice, pursuant to which (among other things) any two executive directors of the Company (or, alternatively, any one executive director of the Company and (as the case may be) any one senior management member designated by another executive director of the Company or, as appropriate, the head of finance department of the Company) have been jointly authorised to approve, ratify and confirm: (1) any and all matters (including, without limitation, any and all financing activities of the Group and acquisitions, investments, disposals and divestitures involving any Group member which do not constitute notifiable and/or connected transactions of the Company or are not otherwise required to be disclosed under the Listing Rules) which have not been covered by the list of matters reserved for the Board (as amended from time to time) under the Manual; or (2) any and all matters which do not fall under the duties of any Board committee, in each case upon and subject to the terms and conditions set out therein.

(c) On 29 December 2020, for better corporate governance, the Board adopted the policies and procedures governing director's potential/actual conflicts of interests as more particularly described above.

In light of the above, 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 chairman and chief executive as prescribed under the code provision contained in Paragraph A.2.1 of the CG Code.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's overall businesses, strategic decisions and performance.

According to the Manual, the respective responsibilities, accountabilities and contributions of the Board and the Company's management have been divided through the adoption of a detailed list of matters reserved specifically for the decision of the Board as more particularly described above.

Subject to the foregoing as well as the delegation mechanism and delegation of authority as mentioned above, the Board has delegated its powers to the Company's management for the daily management and operations of the Group. In addition, the Board has delegated its powers to the Board committees. The Board has four Board committees, namely the audit committee, the remuneration committee, the nomination committee and the corporate governance committee, each of which discharges its functions and duties in accordance with the respective terms of reference with reference to the relevant provisions under the CG Code.

The Board currently consists of three executive directors and three independent non-executive directors.

Executive Directors

CHIH Yu Yang *(acting chairman, chief executive officer and chairman of the corporate governance committee)*
KUO Wen-Yi *(member of the corporate governance committee)*
MENG Hsiao-Yi *(appointed effective 30 October 2020)*
WANG Chien Ho *(retired effective 30 October 2020)*

Independent Non-executive Directors

LAU Siu Ki *(chairman of the audit committee, remuneration committee and nomination committee respectively)*
Daniel Joseph MEHAN *(member of the audit committee, remuneration committee and nomination committee respectively)*
TAO Yun Chih *(member of the audit committee, remuneration committee and nomination committee respectively)*

The respective biographical details (including, without limitation, gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge) of each director are set out in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2020 annual report incorporating this report).

In accordance with the Articles, any director, appointed to fill a casual vacancy or as an addition to the then existing Board, shall hold office only until the first general meeting after his/her appointment and shall then be eligible for re-election at such general meeting.

In accordance with the Articles, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every director shall be subject to retirement by rotation at an annual general meeting at least once every three years. The directors to retire in the relevant year will be those who have been longest in office since their last re-election.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. The balanced Board composition (comprising three independent non-executive directors out of a total of six Board members) also ensures that strong independence exists across the Board. The biographical details of the directors as at the date of this report as set out in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2020 annual report incorporating this report) demonstrate a diversity of skills, expertise, experience, qualifications and other perspectives appropriate to the requirements of the Company's business.

The Board meets regularly and Board meetings are held at least four times a year to discuss principally the overall strategies as well as the operational and financial performance of the Group, and (in relation to the first and third regular Board meetings) to review and approve the Company's final results and interim results, respectively. At least fourteen days' notice (in relation to each regular Board meeting) or a reasonable notice (in relation to any other ad-hoc Board meeting) is given to all directors and they can include matters for discussion in the agenda. An agenda and accompanying Board papers are sent to all directors at least three days before the intended date of a Board meeting. Every Board member is entitled to have access to Board papers and related materials and access to the advice and services of the company secretary. They can also seek independent professional advice in appropriate circumstances, at the Company's expense. If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical Board meeting. The minutes books are kept by the company secretary. Draft and final versions of minutes of the Board meetings were sent to all directors for their comments and records respectively within a reasonable time after the meetings. During the year under review, eight Board meetings were held. The meeting attendance of each Board member is set out in the section headed "Board, Committees and General Meetings" below. In addition to the Board meetings, the Board dealt with matters once by way of circulation and signing of written resolutions during the year under review.

CHAIRMAN

The chairman is responsible for providing leadership to the Board and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at the Board meetings. He should take the primary responsibility for ensuring that good corporate governance practices and procedures are established and appropriate steps are taken to provide effective shareholders' communication with the Board. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the non-executive directors. On 4 December 2020, Mr. Chih (the Company's acting chairman) held a meeting with the independent non-executive directors without the presence of the other executive directors.

NON-EXECUTIVE DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors, namely Mr. LAU Siu Ki ("Mr. Lau"), Dr. Daniel Joseph MEHAN ("Dr. Mehan") and Mr. TAO Yun Chih ("Mr. Tao"), setting out the terms and conditions governing his appointment and ancillary matters, as amended and supplemented from time to time.

With reference to the requirement under the Articles regarding directors' retirement from office by rotation at each annual general meeting of the Company as mentioned above, it follows that pursuant to the resolution passed by the Company's shareholders at an annual general meeting of the Company in relation to the re-election of any one director of the Company, the current term of such director's appointment with the Company will commence from the closing of such annual general meeting, ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) such director's next re-election is considered in accordance with the Articles.

Pursuant to the approval of the Board on 27 March 2020 and the approval of the Company's shareholders on 22 May 2020, Mr. Tao, an independent non-executive director of the Company, was re-elected in his capacity for a term commencing from 22 May 2020 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles.

Pursuant to the re-elections duly approved by the Company's shareholders on 18 May 2018, the current appointment term of each of Mr. Lau and Dr. Mehan as an independent non-executive director of the Company has commenced from 18 May 2018, ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles, which meeting is currently scheduled to be held on or about 28 May 2021.

During the year under review, the non-executive directors (for the time being, being all the independent non-executive directors) provided the Company with the benefit of a wide range of their skills, expertise and varied backgrounds and qualifications and brought independent judgement on issues of strategic direction, policy, development and performance through their contributions at Board meetings and (as appropriate) committee meetings.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year under review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received written annual confirmation of independence from the three independent non-executive directors, Mr. Lau, Dr. Mehan and Mr. Tao, in accordance with Rule 3.13 of the Listing Rules.

Mr. Lau and Dr. Mehan have served the Board for more than nine years, and subject to retirement and re-election under the Articles as mentioned above, the current appointment term of each of Mr. Lau and Dr. Mehan with the Company as an independent non-executive director will be ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles, which meeting is currently scheduled to be held on or about 28 May 2021. The Board has therefore kept Mr. Lau's and Dr. Mehan's positions under careful review. Mr. Lau has over 35 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing, whereas Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development (for further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2020 annual report incorporating this report). On the basis of their respective professional background, skills and experience as well as their diversity of perspectives appropriate to the requirements of the Company's business, Mr. Lau and Dr. Mehan have accumulated in-depth understanding of the Group's business operations and affairs, and have been contributing objectively and giving independent guidance, views and comments to the Company over the past years. For the year under review, Mr. Lau and Dr. Mehan have provided their respective written annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. They have also confirmed no relationship with any directors, senior management members, or substantial or controlling shareholders of the Company. Each of Mr. Lau and Dr. Mehan has not held any executive or management role or position within the Group, and has not been involved in the daily operations and management of the Group during the years that he has been a director, and has clearly demonstrated to the Company his willingness to exercise independent judgement and to provide objective views to the Company.

In this respect, the nomination committee of the Company re-assessed the independence of all the independent non-executive directors in respect of the year under review, and was satisfied (among other things) that each of Mr. Lau, Dr. Mehan and Mr. Tao was and would be independent in accordance with Rule 3.13 of the Listing Rules. On the basis of the recommendation from the nomination committee and up to the date of this report, the Board (after taking into account the above factors) is not aware of the occurrence of any event which would cause it to believe that the independence of any of the independent non-executive directors has been impaired. In relation to Mr. Lau and Dr. Mehan who have served the Board for more than nine years, the Board is not aware of any evidence that the length of tenure of Mr. Lau and Dr. Mehan has had any adverse impact on their independence, nor any circumstance that might influence Mr. Lau and Dr. Mehan in effectively exercising their judgement independently, in either case in their capacity as independent non-executive directors despite their familiarity with the Group's affairs and management. Accordingly, the Board has concluded that Mr. Lau and Dr. Mehan have remained and would continue to remain independent in the context of the Listing Rules. In addition, during the year under review, Mr. Lau and Dr. Mehan spent about 29 hours in 2020 and 15 hours in 2020 respectively in training which evidences their efforts to keep abreast of new changes for their continuous professional development with fresh perspectives. Moreover, after a comprehensive review of all the skill sets, experience and qualifications of Mr. Lau and Dr. Mehan respectively, the Board and the nomination committee have believed that Mr. Lau and Dr. Mehan possess the required character, competence, integrity and experience to continue fulfilling their role as the independent non-executive directors of the Company, and their continued tenure will continue to bring valuable insights, advices, expertise and fresh perspectives to the Board.

As disclosed in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2020 annual report incorporating this report, as at the date of this report, Mr. Lau holds the position of independent non-executive director in six other companies which shares are listed on the Stock Exchange. The Board and the nomination committee have considered that Mr. Lau has, throughout the period during which he has been acting as an independent non-executive director of the Company, demonstrated that he has been, and will continue to be, able to devote sufficient time to the Board after having taken into account a variety of considerations, including without limitation the following: (i) given all the above-mentioned directorships are of an independent non-executive nature and do not require Mr. Lau to devote his full time and attention to the day-to-day operation and management of those companies; (ii) Mr. Lau is a competent professional and good at time management who has sound knowledge and skills to efficiently handle seventh or more companies' directorships, and since his appointment as a director of the Company in December 2004, Mr. Lau has demonstrated outstanding time management, planning and organisation skills with the help of sufficient staff support despite overlapping of financial year-end and peak seasons for listed companies, and also, during the year under review, he spent about 29 hours in 2020 in training to effectively facilitate the performance of his appointments; (iii) Mr. Lau has a proven track record of ability and commitment to manage and allocate sufficient time for matters relating to the Group from time to time handled by the Board and/or the Board committees chaired by Mr. Lau (the "Group Matters"), as evidenced by his full attendance at a total of eight meetings of the Board (out of eight in the year under review), four meetings of the audit committee (out of four in the year under review), two meetings of the nomination committee (out of two in the year under review) and two meetings of the remuneration committee (out of two in the year under review), one meeting of the independent Board committee (out of one in the year under review) and two meetings of the Company's shareholders (out of two in the year under review); and (iv) at the request of the Company, Mr. Lau provides an annual confirmation that he has devoted sufficient time and attention to the Group Matters for the year under review and will continue to do so, and in particular, Mr. Lau has disclosed to the Company: (a) the number and nature of offices held by him in public companies, organisations and other significant commitments as more particularly described in his biographical details; (b) the identity of the said companies and organisations; and (c) an indication of time involved in each of such offices, and Mr. Lau will also notify the Company of any change of such information in a timely manner. Further, the Board is of the view that Mr. Lau's directorship experiences in other companies listed on the Stock Exchange would enable him to discharge his duties as an independent non-executive director of the Company more effectively as these experiences are beneficial in equipping him with accumulative knowledge, familiarity and experience on matters such as the latest developments and trends in directors' duties, Listing Rules requirements, regulatory focus and common risks and limitations in management and compliance. The Board will continue to maintain regular communications with Mr. Lau and re-assess Mr. Lau's ability to devote sufficient time to the Group Matters and discussions and deliberations at the Board level on an on-going basis.

As explained in page 169 of the Company's 2019 corporate governance report forming part of the Company's 2019 annual report which was issued and published on 16 April 2020, Mr. Lau is involved in the Market Misconduct Tribunal proceedings commenced by the Hong Kong Securities and Futures Commission. The Company understands that substantive hearings at the Market Misconduct Tribunal have been scheduled at 10:00 a.m. on 6 to 9, 15 to 17 and 20 September 2021. In the meantime, and pending the conclusion of those proceedings, the Company's directors (other than Mr. Lau) have assessed the information available and consider that Mr. Lau continues to be fit and proper to remain: (i) an independent non-executive director of the Company; and (ii) the chairman of the Company's audit committee, remuneration committee, nomination committee and independent Board committee. The Company will continue to maintain regular communications with Mr. Lau and to periodically assess Mr. Lau's fitness and propriety and suitability to remain in his current roles in light of any new information that might become available.

The Company's independent non-executive directors comprise individuals of a diverse range of ethnicity as well as cultural, educational and technical backgrounds, coming from Hong Kong, Taiwan and the U.S. and holding academic qualifications from these jurisdictions. They are also equipped with a diverse range of skills, knowledge and experience in different industry and professional fields ranging from corporate governance, corporate finance, financial advisory and management, accounting and auditing, information systems, cyber security, marketing and business development, Internet and mobile application developments and consultancy to start-up growth and management. In addition, their ages diversely range from 47 to 76. For further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2020 annual report incorporating this report.

COMPANY SECRETARY

Ms. Vanessa WONG Kin Yan has been the company secretary of the Company since June 2017. Ms. Wong is a full-time employee of the Company and has been supporting the Board (among other things) for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and timely preparation and dissemination to directors comprehensive Board meeting agendas and papers. During the year under review, Ms. Wong undertook over 15 hours of relevant professional training to update her skills and knowledge.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Prior to appointment, every intending director of the Company is provided with a briefing and training provided by the Company's professional legal advisers to ensure that he/she is fully aware of the duties, roles, responsibilities and obligations as a director of a Hong Kong-listed company under the Listing Rules and other applicable legal and regulatory requirements. Such briefing and training are provided at the Company's expense. The intending director also receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has an appropriate understanding of the Group's operations and businesses, including without limitation applicable legal, regulatory and related compliance requirements; corporate structure; Board and Board committee meeting procedures; shareholders communications; internal control and enterprise risk management systems and related processes; corporate governance practices; and securities dealing.

The Company from time to time provides briefings, training sessions and materials to the directors to develop and refresh their knowledge and skills, including updates on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements to enhance their awareness and understanding of the same.

During the year under review, all directors had participated in appropriate continuous professional development activities through different means as appropriate, including but not limited to attending briefings and/or training sessions and/or reading materials relating to a variety of subject matters such as the Group's business operations, general economy and geopolitics, manufacturing or technology or handset industry and dynamics, directors' duties and responsibilities, and applicable legal and regulatory requirements.

The company secretary of the Company is responsible for keeping the records of training taken by the directors. According to the records kept by the Company, the directors attended the following continuous professional development activities during the year under review:

Name of director	Type(s) of continuous professional development activities
CHIH Yu Yang	A, B
WANG Chien Ho (retired with effect from 30 October 2020)	A, B
KUO Wen-Yi	A, B
MENG Hsiao-Yi (appointed with effect from 30 October 2020)	A, B
LAU Siu Ki	A, B
Daniel Joseph MEHAN	A, B
TAO Yun Chih	A, B

A: Attending briefing(s) and/or training session(s)
B: Reading articles, journals, newspapers and/or other materials

AUDIT COMMITTEE

The Company has established and maintained an audit committee with written terms of reference by reference to the code provisions of the CG Code. The terms of reference of the audit committee are accessible on the websites of the Stock Exchange and the Company respectively.

The audit committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the audit committee)*
Daniel Joseph MEHAN
TAO Yun Chih

The principal duties of the audit committee are to review the Group's financial reporting and accounting policies and practices as well as financial controls, internal control and enterprise risk management systems and provide advice and comments to the Board. It also makes recommendations on the appointment, re-appointment and removal of external auditor, and approves the remuneration and terms of engagement of the external auditor. It also reviews and monitors the external auditor's independence and objectivity as well as the effectiveness of the audit process. Please see the section headed "Accountability and Audit" below for more details.

In particular, the Company has complied with Rule 3.21 of the Listing Rules, which requires that at least one of the members of the audit committee (which must comprise a minimum of three members with non-executive directors only and must be chaired by an independent non-executive director) is an independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The audit committee shall meet at least twice a year. Also, at least once a year the audit committee shall meet with the external auditor without any members of management of the Company present. During the year under review, the audit committee held two meetings with the external auditor and also another meeting with the external auditor without the presence of any members of management of the Company. Moreover, four audit committee meetings were held during the year under review and the meeting attendance of each member of the audit committee is set out in the section headed "Board, Committees and General Meetings" below. In particular, the committee meetings served (among other things) to review the unaudited interim financial statements and report and the audited full-year financial statements and report together with the related management representation letters, to review and approve the external auditor's engagement letters, to review and approve the internal audit plan of the Group, to review the Group's system of enterprise risk management and internal controls, to review the Group's relevant continuing connected transactions, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the audit committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the audit committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

REMUNERATION COMMITTEE

The Company has established and maintained a remuneration committee with written terms of reference by reference to the code provisions of the CG Code. The terms of reference of the remuneration committee are accessible on the websites of the Stock Exchange and the Company respectively.

The remuneration committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the remuneration committee)*
Daniel Joseph MEHAN
TAO Yun Chih

The principal duties of the remuneration committee are to make recommendations to the Board on the policy and structure for the remuneration of the directors and senior management, to consider and review the remuneration of the directors and senior management by reference to corporate goals and objectives, and to make recommendations to the Board on the remuneration packages of the directors and senior management.

The remuneration committee shall meet at least once a year (as necessary). During the year under review, two remuneration committee meetings were held and the meeting attendance of each member of the remuneration committee is set out in the section headed "Board, Committees and General Meetings" below. In particular, the committee meetings served (among other things) to review the annual expenses allowances to executive directors, to review the annual remuneration packages of directors (including that of a new director) and senior management and the terms of a new director's letter of appointment, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the remuneration committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the remuneration committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

Details of the remuneration paid/payable to the directors of the Company during the year under review are set out in note 8 to the consolidated financial statements and "Report of the Directors" above, respectively, both forming part of the Company's 2020 annual report incorporating this report.

NOMINATION COMMITTEE

The Company has established and maintained a nomination committee with written terms of reference together with the nomination policy for directorship, formerly known as the nomination procedures and process and criteria to select and recommend candidates for directorship (the "Nomination Policy") as well as the board diversity policy (the "Board Diversity Policy"), both policies forming part of the Manual, by reference to the code provisions of the CG Code. The terms of reference of the nomination committee are accessible on the websites of the Stock Exchange and the Company respectively.

The nomination committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the nomination committee)*
Daniel Joseph MEHAN
TAO Yun Chih

The principal duties of the nomination committee include:

- reviewing the structure, size and composition of the Board annually and make recommendations on any proposed changes;

- making recommendations to the Board on the appointment or re-appointment of the directors and succession planning for the directors, in particular the chairman of the Board and the chief executive officer of the Company;

- assessing the independence of the independent non-executive directors;

- identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships in accordance with the Nomination Policy and the Board Diversity Policy; and

- together with the corporate governance committee, reviewing each of the Nomination Policy and the Board Diversity Policy (as appropriate) to ensure its effectiveness, relevance to the Company's needs and alignment with the then current regulatory requirements and good corporate governance practice, and discussing any proposed changes to the then existing Policy for recommendation to the Board for consideration.

Nomination Policy

On 22 March 2012, the Company adopted the Nomination Policy, as amended and supplemented from time to time. The Nomination Policy aims at setting out (among other things) the process for the nomination of directorship candidates by a director or shareholder of the Company, the information collection and candidate selection process of the nomination committee, criteria which the nomination committee would consider and details on the nomination procedures for appointment and re-appointment of director(s) of the Company, in order to facilitate the constitution of the Board with a balance of skills, knowledge, ability, experience and diversity of perspectives that is appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The Nomination Policy supplements the terms of reference of the nomination committee.

Further to the requirements under the Articles applicable to the nomination of directorship candidates by a director or shareholder of the Company, the nomination committee shall take into account a variety of considerations in assessing and evaluating whether a candidate is suitably qualified to be appointed as a director of the Company before making recommendations to the Board. The main considerations are summarised as follows:

- the candidate's qualifications, skills, knowledge, ability and experience, with reference to the corresponding professional knowledge and industry experience that may be relevant to the Company and also the potential contributions that such candidate could bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

- the candidate's potential time commitment and attention to perform director's duties under common law, legislation and applicable rules and regulations (including without limitation the Listing Rules);

- the candidate's personal ethics, integrity and reputation (including without limitation to conduct appropriate background checks and other verification processes against such candidate), which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business;

- the then current structure, size and composition of the Board and the Company's corporate strategy with reference to the Board Diversity Policy, with due regard for the benefits of the appropriate diversity of perspectives within the Board;

- Board succession planning considerations and the long-term needs of the Company; and

- any other factors and matters as the nomination committee may consider appropriate.

In case of a candidate for an independent non-executive director of the Company, the nomination committee will also assess:

- the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and

- the requirements relating to independent non-executive directors set out in Code Provision A.5.5 of Appendix 14 to the Listing Rules,

and for such purposes, the nomination committee may refer to the practical advice and suggestions provided in the Guidance for Boards and Directors (as amended and supplemented from time to time) published by the Stock Exchange in respect of independent non-executive directors.

As to the re-appointment of a director of the Company, the nomination committee will *mutatis mutandis* apply the above process and criteria, and if applicable, assess whether such director has remained independent in the context of the Listing Rules and should be re-elected at the next general meeting of the Company. Please see below for details.

The nomination committee will follow the nomination procedures set out in the Nomination Policy to select and recommend candidates for the Company's directorship to ensure that the candidates possess the expertise and experiences to perform his/her duties and fulfill the relevant requirements as a director of the Company. Such nomination procedures are summarised as follows:

- Upon receipt of a nomination from the nominating director or the company secretary of the Company, the chairman of the nomination committee will convene a meeting of the nomination committee to consider the same in accordance with the terms of reference of the nomination committee. For filling a casual vacancy to the Board, the nomination committee will conduct the relevant selection process and apply the relevant selection criteria, and make recommendations to the Board for consideration. The Board will then make a decision as to whether the nominated candidate shall be eligible to be appointed as a director of the Company.

- A similar process is applied in the re-appointment of director(s) of the Company, except that if the director proposed to be re-appointed or re-elected due to retirement by rotation under the Articles is an independent non-executive director of the Company who has served the Board for more than nine years, the nomination committee shall assess whether the director has remained independent in the context of the Listing Rules and should be re-elected at the next general meeting of the Company and make recommendations to the Board for consideration. If the Board determines that the relevant director has remained independent in the context of the Listing Rules, the Board shall recommend the proposed re-appointment/re-election of the director to the Company's shareholders for consideration at the next general meeting of the Company. According to Code Provision A.4.3 of Appendix 14 to the Listing Rules, the Company's circular relating to the proposed re-appointment of such director shall include the reasons why the Board believes that the director is still independent and should be re-elected.

- For proposing a candidate to stand for election as the Company's director at a general meeting of the Company, the nomination committee will make nominations to the Board for consideration, and the Board will then make recommendations to the Company's shareholders for consideration. In accordance with Rule 13.70 of the Listing Rules, the Company shall issue an announcement or supplementary circular setting out the information required by the Listing Rules (including without limitation the relevant particulars of the candidate) not less than ten business days prior to the date of the general meeting. In this respect, the Company will assess whether to adjourn the general meeting to allow the Company's shareholders at least ten business days to consider the relevant information disclosed in the announcement or supplementary circular. For details about the procedures for the Company's shareholders to propose candidates for election as a director of the Company, please see such procedures (as amended and supplemented from time to time) accessible on the website of the Company.

Board Diversity Policy and Diversified Board Composition

On 12 August 2013, the Company adopted the Board Diversity Policy, as amended and supplemented from time to time. The Company recognises the benefits from its Board constituted from time to time having a balance of skills, knowledge, ability, experience and diversity of perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The Company regards the achievement and maintenance of the appropriate diversity of perspectives within the Board as a critical factor in supporting its competitive strengths and achieving its strategic goals and sustainable development in the long run. The Board Diversity Policy aims at setting out the framework that the Company has put in place to implement the above objectives. The Board Diversity Policy supplements the terms of reference of the nomination committee.

In accordance with the Board Diversity Policy, when reviewing the Board's structure and composition and/or Board member appointment or re-appointment, the nomination committee shall take into account a number of factors (with reference to the diversity of perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates) as measurable objectives (which factors include without limitation gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge as well as length of service). The nomination committee will continue to monitor and review the progress towards achieving the said measurable objectives by considering candidates on merits as well as against the said measurable objectives with due regard for the benefits of the appropriate diversity of perspectives within the Board and the candidates' potential contributions thereto. The Company has always recognised gender diversity as one important aspect of diversity, and the Board had previously comprised of female directors (Ms. GOU Hsiao Ling from December 2004 to January 2012, and Ms. LEE Kuo Yu from May 2013 to May 2016). The directorship candidate nomination and selection process (coupled with criteria) of the nomination committee is without gender bias, being based principally on merits and assessment of candidates against the said measurable objectives (comprising gender as only one of the factors) with due regard for the benefits of the appropriate diversity of perspectives within the Board and also the candidates' potential contributions thereto. It follows that the nomination committee's selection and (if thought fit) nomination of female directorship candidates would mainly depend on the then available pool of female directorship candidates possessing the requisite professional, cultural and educational background as well as professional skills, experience and knowledge that are commensurate with the needs of the Company, etc. when being assessed on merits as well as against the said measurable objectives. Despite the recent limited availability of female directorship candidates possessing the requisite industry experience in the business fields in which the Company is principally engaged, the Company will continue to give due regard to the different aspects of diversity (including gender diversity) when considering potential candidates for directorship in accordance with the Board Diversity Policy. In particular, the nomination committee will use its best effort to identify and recommend female candidates to the Board for its consideration for appointment as director(s) with an ultimate aim to achieve the Board's target to appoint at least one female member to the Board within three years from the date of this report.

As at the end of the year under review, the Board comprised six directors, including three executive directors, namely Mr. CHIH Yu Yang, Dr. KUO Wen-Yi and Mr. MENG Hsiao-Yi; and three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih. Details of the directors are set out in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2020 annual report incorporating this report.

The Board was diversified in terms of age (ranging from 47 to 76), ethnicity, length of service (ranging from around six months to more than 16 years), professions, background, etc. Among the six directors, three of them held master's or doctoral degrees, and their cultural, educational and technical backgrounds span across Taiwan, Hong Kong and the U.S., with experiences in communication industries and engineering, product research and development, factory operation management, resources integration and optimisation, corporate governance, corporate finance, financial advisory and management, accounting and auditing, information systems, cyber security, marketing and business development, Internet, mobile application and technology developments and consultancy to start-up growth and management. The diversified composition of the Board, coupled with alignment with the Company's strategy and objectives, bring a broad vision to the Board in making decisions on the Group's material issues, which has effectively enhanced the decision-making competencies, strategic management and overall performance of the Board.

2020 Work Highlights

The nomination committee shall meet at least once a year (as necessary). During the year under review, two nomination committee meetings were held and the meeting attendance of each member of the nomination committee is set out in the section headed "Board, Committees and General Meetings" below. In particular, the committee meetings served (among other things) to consider the re-election of two directors and the appointment of a new director, to assess the independence of the independent non-executive directors, to review the structure, size and composition of the Board, to assess the sufficiency of the directors' time commitment and contributions to the Company as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the nomination committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the nomination committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

During the year under review: (a) each of Mr. WANG Chien Ho ("Mr. Wang") and Mr. Tao was re-elected by the Company's shareholders on 22 May 2020 as an executive director and an independent non-executive director respectively of the Company, whose re-appointment term has commenced from 22 May 2020, ending upon the conclusion of the relevant general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles; and (b) Mr. MENG Hsiao-Yi ("Mr. Meng") was appointed as an executive director of the Company with effect from 30 October 2020 for a term commencing from 30 October 2020 and ending upon the conclusion of the relevant general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles, which meeting is currently scheduled to be held on or about 28 May 2021. In this respect, the work performed by the nomination committee is summarised as follows:

- When considering the proposed re-appointment of Mr. Wang as an executive director of the Company, the nomination committee focused on Mr. Wang's professional background, qualifications, skills, knowledge, ability and experience, the extensive and in-depth knowledge and experience of Mr. Wang in both the Company and the industry as accumulated by Mr. Wang as the Company's executive director, his time commitment, attention and contributions to the Company as well as his diversity of perspectives appropriate to the requirements of the Company's business. Following the relevant meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Mr. Wang for re-appointment as an executive director of the Company.

- When considering the proposed re-appointment of Mr. Tao as an independent non-executive director of the Company, the nomination committee focused on Mr. Tao's professional background, qualifications, skills, knowledge, ability and experience, the extensive and in-depth knowledge and experience of Mr. Tao in both the Company and the industry as accumulated by Mr. Tao as the Company's independent non-executive director, his time commitment, attention and contributions to the Company as well as his diversity of perspectives appropriate to the requirements of the Company's business. In addition, the nomination committee re-assessed the independence of all the Company's independent non-executive directors (including Mr. Tao) in respect of the year under review, and was satisfied (among other things) that Mr. Tao was and would be independent in accordance with Rule 3.13 of the Listing Rules. Following the relevant meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Mr. Tao for re-appointment as an independent non-executive director of the Company.

- In anticipation of the retirement of Mr. Wang as an executive director of the Company as a matter of an orderly succession planning at the Board level, Mr. Meng was nominated to be appointed as an executive director of the Company in place of Mr. Wang with effect from 30 October 2020. Mr. Meng was nominated to be appointed to fill a casual vacancy on the Board in accordance with Article 95 of the Articles. When considering the nomination of

Mr. Meng as an executive director of the Company, the nomination committee obtained and reviewed the relevant information and documents relating to Mr. Meng (including without limitation his curriculum vitae showing (among other things) his skills, knowledge, ability and experience in the relevant areas) in accordance with the relevant provisions of the Nomination Policy and the Board Diversity Policy. Following the procedures set out in the Nomination Policy, a meeting of the nomination committee was convened, during which the nomination committee assessed and took into account (among other things): (i) Mr. Meng's extensive and in-depth skills, knowledge, ability and experience in both the Group and the industry, as accumulated by Mr. Meng in performing his key roles and functions with both the Group and the other members of the Hon Hai Technology Group for almost 30 years; (ii) Mr. Meng's potential time commitment and attention to perform his duties as a director of the Company, particularly on the basis of his full-time employment with the Group (whereas Mr. Wang is an employee of the Hon Hai Technology Group); (iii) aspects such as personal ethics, integrity and reputation of Mr. Meng, which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business; and (iv) applicable provisions of the Board Diversity Policy. Following due consideration of the aforementioned factors, the nomination committee determined at such meeting to make recommendation to the Board for proposing Mr. Meng as a suitably qualified candidate for appointment as an executive director of the Company.

During the year under review and in accordance with the Board Diversity Policy, in the process of assessing candidates for the appointment and re-appointment of directors of the Company, the nomination committee considered (among other things) the said measurable objectives. In this respect, the work performed by the nomination committee is summarised as follows:

- In making a recommendation to the Board proposing Mr. Wang for re-appointment as an executive director of the Company, the nomination committee had taken into account (among other things) Mr. Wang's Taiwan background, professional qualifications, skills, knowledge, ability and experience as well as extensive and in-depth skills, knowledge, ability and experience in both the Group and the industry as accumulated by Mr. Wang in performing his key roles and functions with both the Group and the other members of the Hon Hai Technology Group for over 24 years, together with his business achievements and contributions, especially those in the aspect of manufacturing operation and engineering management.

- In making a recommendation to the Board proposing Mr. Tao for re-appointment as an independent non-executive director of the Company, the nomination committee had taken into account (among other things) Mr. Tao's Taiwan background, professional qualifications, skills, knowledge, ability and experience (especially those in the aspects of consultancy to start-up growth and management and Internet and mobile application developments) as well as his age of 47 when Mr. Tao is the youngest member of the Board who may continue to bring younger-generation thoughts and perspectives to the Board for better refreshment.

- In relation to the nomination of Mr. Meng as an executive director of the Company, the selection of Mr. Meng as the Board candidate was made on a merit basis with reference to the Company's business and the aforementioned perspectives of diversity. In particular, in making a recommendation to the Board proposing Mr. Meng as a candidate for appointment as an executive director of the Company, the nomination committee had taken into account (among other things) Mr. Meng's Taiwan background as well as extensive and in-depth skills, knowledge, ability and experience in both the Group and the industry as accumulated by Mr. Meng in performing his key roles and functions with both the Group and the other members of the Hon Hai Technology Group for almost 30 years, together with his business achievements and contributions, especially those in the aspect of factory operations as Mr. Wang's successor as a matter of an orderly succession planning at the Board level.

CORPORATE GOVERNANCE COMMITTEE

The Company has established and maintained a corporate governance committee with written terms of reference by reference to the code provisions of the CG Code.

The corporate governance committee now consists of two executive directors. The members are:

CHIH Yu Yang *(chairman of the corporate governance committee)*
KUO Wen-Yi

The principal duties of the corporate governance committee are to develop and review the Company's policies and practices on corporate governance and to make recommendations to the Board. It also reviews and monitors the training and continuous professional development of the directors and senior management. In addition, it reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements. Moreover, it develops, reviews and monitors the code of conduct and compliance manual applicable to employees and the directors, and to review the Company's compliance with the CG Code.

The corporate governance committee shall meet at least once a year (as necessary). During the year under review, one corporate governance committee meeting was held and the meeting attendance of each member of the corporate governance committee is set out in the section headed "Board, Committees and General Meetings" below. In particular, the committee meeting served (among other things) to review the revised list of matters reserved for the Board, to review the existing shareholders communication policy and the existing delegation of authority of the Board and to review the total time spent in training and continuous professional development of directors and senior management of the Company as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the corporate governance committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the corporate governance committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

INDEPENDENT BOARD COMMITTEE

During the year under review, pursuant to the resolutions passed at the Board meeting held on 7 August 2020, an independent Board committee comprising the three independent non-executive directors of the Company (with Mr. LAU Siu Ki as its chairman) was established to consider (among other things) the proposed revised annual caps in respect of the Product Sales Transaction for the three years ending 31 December 2022 as more particularly described in "Report of the Directors" above (forming part of the Company's 2020 annual report incorporating this report). The meeting attendance of each member of the independent Board committee is set out in the section headed "Board, Committees and General Meetings" below.

BOARD, COMMITTEES AND GENERAL MEETINGS

The individual attendance records of each director (represented in the following manner: number of meeting(s) attended by each director/total number of the corresponding meeting(s) held during such director's appointment term) at the meetings of the Board, audit committee, remuneration committee, nomination committee, corporate governance committee, independent Board committee and general meetings of the Company during the year under review are set out below:

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	Independent Board Committee Meeting	Annual General Meeting *(Note 1)*	Extra-ordinary General Meeting *(Note 2)*
Executive Directors								
CHIH Yu Yang	8/8	N/A	N/A	N/A	1/1	N/A	1/1	1/1
WANG Chien Ho *(retired with effect from 30 October 2020)*	5/6	N/A	N/A	N/A	N/A	N/A	1/1	1/1
KUO Wen-Yi	8/8	N/A	N/A	N/A	1/1	N/A	1/1	1/1
MENG Hsiao-Yi *(appointed with effect from 30 October 2020)*	3/3	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors								
LAU Siu Ki	8/8	4/4	2/2	2/2	N/A	1/1	1/1	1/1
Daniel Joseph MEHAN	8/8	4/4	2/2	2/2	N/A	1/1	1/1	1/1
TAO Yun Chih	8/8	4/4	2/2	2/2	N/A	1/1	1/1	1/1

Notes:

1. The directors participated in the annual general meeting held on 22 May 2020 ("2020 AGM") by means of telephone conference facility, except that Mr. LAU Siu Ki attended the 2020 AGM in person.

2. The directors participated in the extraordinary general meeting held on 18 September 2020 ("2020 EGM") by means of telephone conference facility, except that Mr. LAU Siu Ki attended the 2020 EGM in person.

AUDITOR'S REMUNERATION

The responsibility of the auditor is to form an independent opinion, based on its audit, on those consolidated financial statements and to report its opinion solely to the Company, as a body, and for no other purpose.

During the year under review, the auditor's remuneration incurred by the Company was US$982,000 and US$1,525,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services and US$51,000 for non-audit services. The Company considers the non-audit services to be insignificant and has therefore not provided itemised details regarding the nature of each non-audit service and the fee paid therefor.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Group and ensuring that the consolidated financial statements are in accordance with applicable statutory requirements and accounting standards.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the preparation of the Group's consolidated financial statements and the Company's financial statements for each financial period, which give a true and fair view of the financial position and operating results of the Group or the Company (as the case may be) for such financial period. In preparing the financial statements for the year under review, the directors have selected and adopted suitable accounting policies and have applied them in a consistent manner, have made reasonable judgements and estimates, and have prepared the financial statements on a going-concern basis.

The Board has overall responsibility for the Group's system of internal controls and enterprise risk management ("ERM") and reviewing its effectiveness, and in particular, evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's business and strategic objectives, ensuring that an adequate and effective system of internal controls and ERM is in place within the Group.

In particular, the Board oversees the Group's management in the context of the Group's ERM and internal controls (comprising the Company's chairman/acting chairman, chief executive officer, chief financial officer and chief operating officer, and the Group's business heads of the Group's major factories in the PRC, India, Vietnam and the U.S., who collectively as a body is designated for the purpose of assisting the Board with the Group's overall policies on ERM and internal controls (the "Management")) in (among other things) the design, implementation and monitoring of the internal control and ERM system on an ongoing basis, so that the business and strategic objectives of the Group can be achieved and risks associated can be identified, analysed, managed and mitigated (but not eliminated) at an acceptable level, and reasonable (but not absolute) assurance can be provided against material misstatement or loss and also assurance can be provided on the effectiveness and adequacy of operations, reliability of financial reporting and operational information, safeguarding of the Group's assets and compliance with the Group's policies, plans and procedures as well as applicable laws and regulations.

The Board (through its audit committee comprising, for the time being, all the independent non-executive directors) oversees and evaluates the Group's internal control and ERM system on an ongoing basis. In particular, the audit committee, in discharging the aforesaid responsibility as delegated by the Board, semi-annually reviews the design and operational adequacy and continuing effectiveness of the Group's internal control and ERM system. In respect of the year under review, semi-annual review of the Group's internal control and ERM system was conducted in August 2020 and March 2021 by the audit committee, and the audit committee confirmed in both occasions that the Group's internal control and ERM system continued to be effective and adequate throughout the year under review. For details, please refer to the penultimate paragraph below of this "Accountability and Audit" section. Moreover, the audit committee, in discharging the Board's responsibility of overseeing and evaluating the effectiveness and adequacy of the Group's system of internal controls and ERM as delegated by the Board, reviews the Group's internal audit function. Pursuant to a risk-based approach, the Group's internal audit function independently reviews the risks associated with and internal controls of the Group over various operations and activities, and evaluates their overall adequacy, effectiveness and compliance, including compliance with the Group's policies, plans and procedures. The Group's internal audit function (as designated by the Board) has unrestricted access to all information, books, people and physical properties, thereby allowing it to review all aspects of the internal controls, ERM and governance processes within the Group. This includes audit of financial and operational controls of all legal entities, business and functional units as well as all other material controls (including financial, operational and compliance controls). The audit committee reviews and approves the internal audit plan which is prepared by the Group's internal audit function in the first quarter of every year based on a risk assessment of each operating and functional unit as well as its materiality in the context of the Group. Audit findings, enhancements and recommendations are communicated to the management of the responsible unit after each internal audit. The management of the responsible unit is responsible for evaluating such audit findings, enhancements and recommendations and then implementing the appropriate ones and rectifying the deficiencies with corrective actions, and the progress on such implementation and rectification is followed up by the Group's internal audit function on a regular basis and monitored by the Management. Escalation to the senior management or even the executive directors for material deficiencies will be made, in order that corrective actions can be taken by the management of the responsible unit in a timely manner. A summary of major activities and findings is reported semi- annually by the Group's internal audit function to the executive directors and the audit committee. Being a learning organisation, lessons learned and best practices are disseminated and promoted within the Group.

During its semi-annual review, the audit committee also considers, in particular: (a) the adequacy of resources, qualifications and experiences of the Group's staff performing accounting, internal audit and financial reporting functions and their training programs and budget; (b) the changes, since the last review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment; (c) the scope and quality of the Management's ongoing monitoring of risks and of the internal control and ERM system, and the work of the Group's internal audit function; (d) the extent and frequency of communication of monitoring results to the audit committee which enables it to assess control of the Group and the effectiveness of risk management; (e) significant control failings or weaknesses that have been identified during the period under review and also the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and (f) the effectiveness of the Group's processes for financial reporting and compliance with the Listing Rules.

The code of conduct and the code of ethics administering appropriate and prohibited individual behaviour within the Group are implemented and apply to employees by way of policies, rules and principles. Besides, the Group has established its whistle-blowing policies and the related procedures which apply to all members of staff and suppliers. Complaints concerning fraudulent acts, unethical acts or improper business conduct can be raised through established hotlines and other channels. Whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice. All complaints will be handled confidentially, fairly and professionally by the Group's chief internal auditor for further investigation and appropriate follow-up actions.

Risk management is one of the fundamental parts of the Group's strategic management, and is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives, and safeguarding the interests of shareholders and other key stakeholders such as customers, creditors and employees. Existing and emerging risks are identified, analysed and managed via the ERM system. The system is operated and monitored by the Group's ERM team (the "ERM Team") which consists of the Company's heads/leaders of human resources, supply chain services, manufacturing and corporate engineering, product safety, security and liability, quality and reliability, finance, legal, information technology, investment management, strategic planning, sales and collection management, environment and health and safety departments/divisions, collectively as a body representing key functions of the Group for monitoring and execution of the ERM processes (e.g. to establish ERM strategies and objectives, and to maintain risk assessment standards and categories) in accordance with the enterprise risk assessment and management planning operation procedures, which set out (among other things) the enterprise risk assessment and management principles and procedures, the quantifiable assessment standards and evaluations, the respective roles and responsibilities of the ERM Team and the supporting divisions and handling officers at the headquarters and business unit levels as well as the ERM system operation details. Risk assessment results generated and contributed by the underlying business unit controllers/risk owners will be collected, reviewed, assessed and consolidated twice a year by the Company's risk management division led by the Group's chief internal auditor. Risk assessment reports (as prepared on the basis of such risk assessment results) will be submitted on a regular basis to the ERM Team for review to ensure the adequacy of action plans and appropriate business processes or control systems to manage these risks (in particular, the areas which were assessed as high risk). The Company's risk management division will consolidate all the risk assessment results in a Group-level risk assessment report and then submit the same to the Company's chief financial officer on an annual basis. Such Group-level risk assessment report provides for (among other things) the ERM framework and model, the annual ERM analyses (with the relevant risk scores, highlighting the major risk areas and corresponding enhancements, if any), and the planned ERM work for next year. In this respect, the Company's chief financial officer will represent the Management and report the operational adequacy and continuing effectiveness of the internal control and ERM system (including the relevant ERM matters) to the audit committee on an annual basis.

The principal risks that are covered by the ERM system are strategic planning, technical, budgetary control, performance measurement, and control over capital expenditure, investment, finance, quality, product safety, security and liability, legal, information technology and security, supply chain management, environmental protection, natural disasters, human resources management, customer credit risk and relationship, industrial safety as well as sales and collection management.

The Group also adopts internal control procedures to ensure that the continuing connected transactions of the Group have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms (or better) and according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole. The accounting department of the Company is primarily responsible for reviewing and monitoring the continuing connected transactions, ensuring that the annual caps of the relevant continuing connected transactions are not exceeded and the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The accounting department of the Company will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and semi-annually report to the chief financial officer of the Company, who in his own capacity and on behalf of the Management will report to the audit committee (for the time being, comprising all the independent non-executive directors) and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the Listing Rules have been entered into: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are properly implemented and operated and are adequate and effective to ensure that such transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements. The audit committee will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the Listing Rules) semi-annually to check and confirm whether such continuing connected transactions are conducted: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, and whether the internal control procedures put in place by the Company are properly implemented and operated and are adequate and effective to ensure that such continuing connected transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements. For details, please refer to the "Internal Control Measures" section of the Company's circular on continuing connected transactions dated 28 August 2020. In particular, in order to assist the independent non-executive directors (for the time being, being all the members of the audit committee) in performing their corresponding duties and functions under the Listing Rules and also having an oversight over the ongoing monitoring in respect of the Group's continuing connected transactions, the Company's chief financial officer and the Group's chief internal auditor jointly issue, on a semi-annual basis, a report to the independent non-executive directors (copied to the corporate governance committee) on the internal controls applicable to such continuing connected transactions, setting out (among other things) the review and findings relating to the assessment of the appropriateness and effectiveness of the relevant internal control procedures, and the recommended enhancements on the relevant internal control procedures (if any). In this respect, sufficient information regarding such continuing connected transactions and related pricing policies and internal control procedures has been provided to the independent non-executive directors, who (during the review process for the period under review) have confirmed that they have not encountered any problems nor difficulties and have been given ample opportunities to pose questions, request additional information and/or make suggestions in respect of any such continuing connected transactions and related pricing policies and internal control procedures.

The Company's chief financial officer in his own capacity and on behalf of the Management, after reviewing and discussing with the Group's internal audit function the Group's internal control and ERM system as well as the related reports and disclosures made by the Group's internal audit function and other relevant stakeholders for the year under review, has provided a confirmation to the audit committee on the adequacy and effectiveness of the system.

Based on the results of evaluations and representations for the year under review made by the Company's chief financial officer in his own capacity and on behalf of the Management and the Group's internal audit function respectively, the audit committee is satisfied with the effectiveness of the Group's internal audit function and that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives, and an effective and adequate system of internal controls and ERM has been in place throughout the year under review, for safeguarding the interests of shareholders and other key stakeholders such as customers, creditors and employees.

The procedures for the handling and dissemination of inside information and handling enquiries from authorities (forming part of the Manual) set out the detailed internal control, reporting and authorisation procedures in connection with:

(a) the handling and dissemination of inside information in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO, where recipients of potential inside information (subject to applicable confidentiality obligations and dealing restrictions) will notify the leader of a core team designated by the Board for assessment and (as appropriate) reporting to the chairman/acting chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess any disclosure need in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO in respect of the potential inside information.

(b) the handling of enquiries from competent authorities (including the Stock Exchange and the Hong Kong Securities and Futures Commission), who may make enquiries with the Company on (among other things) unusual movements in the price or trading volume of the Company's shares under Rule 13.10 of the Listing Rules or media news or compliance with the Listing Rules, the SFO or other applicable laws and regulations, and such enquiries will be handled through the designated core team and (as appropriate) the chairman/acting chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess proper disclosure.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. 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 under review.

SHAREHOLDER RELATIONS

The Company has formulated and maintained the shareholders communication policy (forming part of the Manual) setting out the framework that the Company has put in place to maintain and promote effective communication and ongoing dialogue with its shareholders so as to enable them to engage actively with the Company through different means of communication and exercise their rights in the capacity as shareholders in an informed manner. To this end, the Company strives to ensure that all its shareholders have ready and timely access to all publicly available information relating to the Company.

The shareholders communication policy provides for (among other things) the procedures by which enquiries may be put forward to the Company as follows:

- The Company's shareholders may at any time send enquiries (including enquiries to the Board) and requests for publicly available information and provide comments and suggestions to the Company. Such enquiries, requests, comments and suggestions can be sent through "Contact FIH" at the Company's website (www.fihmb.com) or to the company secretary at the following address:

  The Company Secretary of FIH Mobile Limited
  c/o Shenzhen Futaihong Precision Industrial Co., Ltd.
  No. 2, 2nd Donghuan Road
  Longhua Street, Baoan
  Shenzhen City
  Guangdong Province
  518109
  People's Republic of China

- For enquiries about their shareholdings in the Company, the shareholders can direct the same to the Company's branch share registrar 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 or by email to hkinfo@computershare.com.hk, who has been appointed by the Company to handle the shareholders' share registration and related matters.

- For the verification of his/her capacity as a shareholder, the shareholder making the enquiry, request, comment or suggestion shall forthwith upon the Company's request provide: (a) his/her name, address and other contact details; (b) the number of the Company's shares held by him/her; (c) his/her written consent to the use, transfer and/or processing of his/her personal data and other information provided to the Company for the purpose of verifying his/her capacity as a shareholder; and (d) such additional information as the Company may reasonably require for the purposes of such verification. The verification process will be conducted by the Company, in consultation with the Company's Hong Kong branch share registrar and other third parties if necessary, to the satisfaction of the Company. The Company will proceed to handle the relevant enquiry, request, comment or suggestion following a successful verification to its satisfaction.

- Following a successful verification of the shareholder's capacity, the company secretary or the handling officer of the Company's investor relations department (as the case may be) will review the relevant enquiry, request, comment or suggestion and (as appropriate) forward the same: (a) to the Board (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within the Board's purview; (b) to the members of the relevant Board committee (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within such Board committee's area of responsibility; and (c) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

The shareholders communication policy also provides (among other things) that the annual general meetings and other general meetings of the Company are the primary forum for communication with the shareholders and for the shareholders' exchange of views and participation in discussions with the Board.

During the year under review, the 2020 AGM was held on 22 May 2020 and the 2020 EGM was held on 18 September 2020. The meeting attendance of each director is set out in the section headed "Board, Committees and General Meetings" above.

At the 2020 AGM, the Company obtained its shareholders' approval of the agenda items set forth in the 2020 AGM notice attached to the Company's circular dated 17 April 2020.

At the 2020 EGM, the Company obtained its independent shareholders' approval of the agenda items set forth in the 2020 EGM notice attached to the Company's circular dated 28 August 2020.

SHAREHOLDERS' RIGHTS

Shareholders' Right to convene Extraordinary General Meeting

The Company has formulated and maintained the memorandum on shareholder rights (forming part of the Manual) setting out (among other things) its shareholders' right to convene the Company's extraordinary general meeting ("EGM") as follows:

- Pursuant to Article 68 of the Articles, the relevant shareholder(s) of the Company is/are entitled to convene an EGM in the following manner:

  (a) Upon the written requisition of any two or more shareholders deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company; or

  (b) Upon the written requisition of any one shareholder who is a recognised clearing house (as defined in the Articles) or its nominee(s) deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

- If the Board does not within twenty-one days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further twenty-one days, the requisitionist(s) himself/herself/themselves or any of them (representing more than one-half of the total voting rights of all of them) may convene the EGM in the same manner, as nearly as possible, as that in which EGMs may be convened by the Board, provided that any EGM so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to him/her/them by the Company.

Procedures for Shareholders' Enquiries

The Company has formulated and maintained the shareholders communication policy (forming part of the Manual) setting out (among other things) the procedures by which enquiries may be put to the Board as more particularly described in the section headed "Shareholder Relations" above.

Shareholders' Right to put forward Proposals at General Meetings

The Company has formulated and maintained the procedures for shareholders to propose candidates for election as a director of the Company (forming part of the Manual), which is accessible on the website of the Company. In relation to other proposals which may be put forward at the Company's general meetings, the Company has formulated and maintained the memorandum on shareholder rights (forming part of the Manual) which provides for (among other things) the following:

- In the absence of any general mechanism for the shareholders to put forward other proposals at the Company's general meetings under the Cayman Islands Companies Act, the shareholder(s) can submit a written requisition (in hard copy form or in electronic form) to move a proper resolution at a general meeting of the Company if such shareholder(s): (a) individually or collectively represent(s) not less than 2.5 percent of the total voting rights of all the shareholders having as at the date of the requisition a relevant right to vote at the Company's general meetings; or (b) are no less than fifty shareholders who as at the date of the requisition have a relevant right to vote at the Company's general meetings.

- The written requisition shall: (a) state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or other business to be dealt with at the relevant general meeting; (b) be authenticated by way of the signature(s) of all the requisitionist(s), which may be contained in one document or in several documents in like form; and (c) be deposited with the company secretary at the following address not less than six weeks before the relevant general meeting (in the case of a requisition requiring notice of a resolution) or not less than seven days before such general meeting (in the case of any other requisition):

    The Company Secretary of FIH Mobile Limited
    c/o Shenzhen Futaihong Precision Industrial Co., Ltd.
    No. 2, 2nd Donghuan Road
    Longhua Street, Baoan
    Shenzhen City
    Guangdong Province
    518109
    People's Republic of China

The expenses of the Company in complying with the written requisition need not be paid by the requisitionist(s) if the relevant general meeting is an annual general meeting of the Company, and the written requisition is received in time to enable the Company to send a copy thereof at the same time as it gives the notice of such annual general meeting; otherwise, the expenses of the Company in complying with the written requisition must be paid by the requisitionist(s), and the Company is not bound to comply with the written requisition unless there is deposited with or tendered to it, not later than seven days before the relevant general meeting, a sum reasonably sufficient to meet its expenses in doing so.