FIH Mobile Limited
富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2020 together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	**2020** *US$'000*	2019 *US$'000*
Continuing operations			
Revenue	2	**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	3	**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	4	**(148,977)**	(4,585)
Income tax expense	5	**(24,859)**	(27,932)
Loss for the year from continuing operations		**(173,836)**	(32,517)
Discontinued operation			
Profit for the year from discontinued operation		**–**	20,339
Loss for the year		**(173,836)**	(12,178)

	Note	2020 US$'000	2019 US$'000
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)
(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	*7*		
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		**887,955**	991,237
Right-of-use assets		**79,825**	72,700
Investment properties		**17,142**	3,965
Financial assets at fair value through profit or loss			
— Equity instruments		**–**	3,739
— Convertible notes		**–**	666
Financial assets at fair value through other comprehensive income	*8*		
— Equity instruments		**205,549**	124,128
Interests in associates		**34,244**	27,940
Interests in joint ventures		**–**	–
Deferred tax assets	*9*	**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		**608,697**	795,821
Trade and other receivables	*10*	**2,354,227**	3,299,023
Financial assets at fair value through profit or loss			
— Short-term investments		**–**	71,939
Bank deposits		**15,506**	19,200
Bank balances and cash		**1,779,332**	1,545,269
		4,757,762	5,731,252
Current liabilities			
Trade and other payables	*11*	**2,760,474**	4,007,915
Contract liabilities		**115,668**	140,249
Lease liabilities		**4,773**	20,150
Bank borrowings	*12*	**929,068**	605,728
Provision	*13*	**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

	Notes	**2020**	2019
		US$'000	*US$'000*
Capital and reserves			
Share capital		**325,800**	328,456
Reserves		**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	*9*	**11,504**	13,106
Deferred income	*14*	**9,778**	18,891
Lease liabilities		**19,438**	5,837
		40,720	37,834
		2,122,788	2,138,434

Notes:

1. 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. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenue and results

The Group's revenue is from contracts with customers and mainly arising from the manufacturing services (including sales of goods and processing service) amounting to US$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.

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	2019
	US$'000	*US$'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.

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

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.

3. OTHER INCOME, GAINS AND LOSSES

	2020	2019
	US$'000	*US$'000*

An analysis of the Group's other income, gains and losses is as follows:

	2020	2019
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 mouldings	**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 fair value through profit or loss		
— 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.

4. LOSS BEFORE TAX

	2020	2019
	US$'000	*US$'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

5. 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 9)*		
— 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 was entitled to a concessionary tax rate of 15% under the China's "Great Western Expansion" campaign. Except these subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (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.

6. 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.

7. 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	2019
	US$'000	*US$'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	2019
	US$'000	*US$'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.

8. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	US$'000	*US$'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 fair value through other comprehensive income ("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 global Oy ("HMD"), a company incorporated in Finland, which is engaged in the development, manufacture and sale of telecommunication devices, software and related services of approximately US$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.

9. DEFERRED TAXATION

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

	Allowances for inventories and trade and other receivables	Warranty provision	Accelerated tax depreciation	Tax losses	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000* *(note)*	*US$'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.

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	2019
	US$'000	*US$'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.

10. TRADE AND OTHER RECEIVABLES

	2020	2019
	US$'000	*US$'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	2019
	US$'000	*US$'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.

11. TRADE AND OTHER PAYABLES

	2020	2019
	US$'000	*US$'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	2019
	US$'000	*US$'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

12. BANK BORROWINGS

	2020	2019
	US$'000	*US$'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).

13. PROVISION

	2020	2019
	US$'000	*US$'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.

14. DEFERRED INCOME

	2020	2019
	US$'000	*US$'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.

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

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

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

Financial assets/liabilities subject to offsetting	**As at 31 December 2020**		
	Gross amounts of recognised financial assets (liabilities)	**Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position**	**Net amounts of financial assets presented in the consolidated statement of financial position**
	US$'000	***US$'000***	***US$'000***
Bank balances	**893,404**	**(893,404)**	**–**
Bank borrowings	**(893,404)**	**893,404**	**–**
Interest receivables	**11,543**	**(10,740)**	**803**
Interest payables	**(10,740)**	**10,740**	**–**

Financial assets/liabilities subject to offsetting	As at 31 December 2019		
	Gross amounts of recognised financial assets (liabilities)	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position
	US$'000	*US$'000*	*US$'000*
Bank balances	1,051,156	(1,051,156)	–
Bank borrowings	(1,051,156)	1,051,156	–
Interest receivables	21,506	(19,353)	2,153
Interest payables	(19,353)	19,353	–

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.

IMPORTANT

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

This announcement 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 Listing Rules and 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.

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 UI 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, 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 2019 environmental, social and governance report as issued and published on 16 April 2020, bearing in mind that the Company's separate 2020 environmental, social and governance report is tentatively scheduled to be issued and published in April 2021.

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 2019 corporate governance report, which forms part of the Company's 2019 annual report as issued and published on 16 April 2020, bearing in mind that the Company's annual report is tentatively scheduled to be issued and published in April 2021. 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 value employees' opinions and feedbacks. In order to communicate effectively with staff, the Group provides channels like meetings, email, or mail box for employees to reflect their thoughts. Currently, the communication between the Group and employees is well conducted 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 shareholders 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 Share Scheme and the Share Option Scheme, respectively, as described in pages 66 to 70 of the Company's 2019 annual report as issued and published on 16 April 2020, 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 Share Option Scheme complies with the requirements of Chapter 17 of the Listing Rules. 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 2019 environmental, social and governance report as issued and published on 16 April 2020, bearing in mind that the Company's separate 2020 environmental, social and governance report is tentatively scheduled to be issued and published in April 2021.

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$57 million in the same period of 2019. As stated in the Company's 2019 annual report as issued and published on 16 April 2020, the Group had modified the currency settlement mechanism with its customers in India, thus exposure to INR was minimised in 2020. As for RMB, since the COVID-19 epidemic spread out to Europe and U.S. while the situation got ease in China, RMB against US$ 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$64 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 2 of "Revenue and Segment Information")

Asia Segment

Asia segment was the Group's core performance contributor in terms of sales turnover and segment profit and 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 2019 environmental, social and governance report as issued and published on 16 April 2020, bearing in mind that the Company's separate 2020 environmental, social and governance report is tentatively scheduled to be issued and published in April 2021.

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 2019 corporate governance report which forms part of the Company's 2019 annual report as issued and published on 16 April 2020, bearing in mind that the Company's 2020 annual report is tentatively scheduled to be issued and published in April 2021.

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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 24 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 21 May 2021.

CORPORATE GOVERNANCE

The Company has adopted the Manual since 15 April 2010, as amended and supplemented from time to time. The purpose of the Manual is to set out the corporate governance practices from time to time adopted by the Company and the compliance procedures that apply in specific areas, with the aim to providing an overview of the requirements of the CG Code and the related rules set out in the Listing Rules and the SFO respectively and also setting out certain guidelines for the implementation of corporate governance measures of the Company.

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 current period.

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

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

Since the resignation of Mr. Tong as the chairman of the Company, the Company has been searching for the right candidate to fill the position of chairman of the Company. However, given the importance of the role, the Board expects that it may take some time before the Company is able to find a suitable candidate to fulfil the role of chairman. In light of the tremendous market challenges and the current uncertainties relating to the vacancy of the chairman role, the Board considered that experienced leadership was of utmost importance and has resolved to adopt an arrangement by appointing Mr. CHIH Yu Yang ("Mr. Chih"), the current chief executive officer, to act as the acting chairman with effect from 1 January 2017. Mr. Chih has been the Company's executive director and chief executive officer since 28 August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive and in-depth knowledge, 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 Share Scheme and the 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 Share Scheme and the 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

As at the date of this announcement, 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

Date of buy-back	No. of Shares bought back	Price per Share Highest HK$	Lowest HK$	Aggregate consideration paid (before expenses) HK$
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
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 is in the interests of the Company and its shareholders as a whole.

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

AUDIT COMMITTEE AND EXTERNAL AUDITOR

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

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2020 and the annual report 2020 of the Company and recommended the same to the Board for approval.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2020. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

DISCLOSURE OF INFORMATION ON WEBSITES

The annual report 2020 of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and made available on the websites of the Stock Exchange and the Company respectively in due course.

DEFINITIONS

"Annual General Meeting"	the annual general meeting of the Company to be held at Kowloon Room I, Mezzanine Level, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Hong Kong on Friday, 28 May 2021 at 10:00 a.m. or, where the context so admits, any adjournment thereof
"Articles"	the amended and restated articles of association of the Company
"associate(s)"	having the meaning as defined in the Listing Rules
"Board"	the board of directors of the Company
"CG Code"	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules

"Company", "we", "our" or "us"	FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
"current period" or "reporting period"	the year ended 31 December 2020
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hon Hai"	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only), a limited liability company incorporated in Taiwan, the shares of which are listed on the Taiwan Stock Exchange Corporation and the ultimate controlling Shareholder
"Hon Hai Technology Group"	Hon Hai, its subsidiaries and/or associates (as the case may be)
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"INR"	Indian Rupee, the lawful currency of India
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Manual"	Corporate Governance Compliance Manual of the Company adopted by the Board on 15 April 2010, as amended from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC" or "China"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) with a nominal value of US$0.04 each in the share capital of the Company

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

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 26 March 2021

As at the date of this announcement, the Board comprises 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.