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FIH Mobile Limited

富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The Board hereby announces the unaudited consolidated results of the Group for the current period together with comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended	
		30.6.2021	30.6.2020
	NOTES	***US$'000***	*US$'000*
		(unaudited)	(unaudited)
Revenue	*4*	**3,937,867**	3,668,273
Cost of sales		**(3,875,550)**	(3,670,938)
Gross profit (loss)		**62,317**	(2,665)
Other income, gains and losses		**76,463**	101,774
Selling expenses		**(3,577)**	(7,538)
General and administrative expenses		**(99,906)**	(92,747)
Research and development expenses		**(62,687)**	(82,200)
Interest expenses		**(3,928)**	(7,694)
Share of (loss) profit of associates		**(96)**	4,118
Loss before tax		**(31,414)**	(86,952)
Income tax credit (expense)	*5*	**3,085**	(14,346)
Loss for the period	*6*	**(28,329)**	(101,298)

	NOTE	Six months ended 30.6.2021 US$'000 (unaudited)	30.6.2020 US$'000 (unaudited)
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
Fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income		**4,283**	(28,752)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**8,545**	(79,023)
Share of translation reserve of associates		**(1,072)**	(643)
		7,473	(79,666)
Other comprehensive income (expense) for the period		**11,756**	(108,418)
Total comprehensive expense for the period		**(16,573)**	(209,716)
Loss for the period attributable to:			
Owners of the Company		**(28,184)**	(100,508)
Non-controlling interests		**(145)**	(790)
		(28,329)	(101,298)
Total comprehensive expense attributable to:			
Owners of the Company		**(16,465)**	(209,022)
Non-controlling interests		**(108)**	(694)
		(16,573)	(209,716)
Loss per share	*8*		
Basic		**(US0.3 cent)**	(US1.2 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2021

	NOTES	**30.6.2021** ***US$'000*** **(unaudited)**	31.12.2020 *US$'000* (audited)
Non-current assets			
Property, plant and equipment	*9*	**851,799**	887,955
Right-of-use assets	*9*	**66,232**	79,825
Investment properties		**16,100**	17,142
Financial assets at fair value through other comprehensive income — Equity instruments		**210,409**	205,549
Interests in associates		**22,254**	34,244
Interests in a joint venture		**–**	–
Deferred tax assets	*10*	**18,654**	20,383
Deposit for acquisition of right-of-use assets		**29,500**	29,214
		1,214,948	1,274,312
Current assets			
Inventories		**603,751**	608,697
Trade and other receivables	*11*	**2,126,082**	2,354,227
Bank deposits		**15,669**	15,506
Bank balances and cash		**1,742,075**	1,779,332
		4,487,577	4,757,762
Current liabilities			
Trade and other payables	*12*	**2,485,045**	2,760,474
Contract liabilities		**79,113**	115,668
Lease liabilities		**4,072**	4,773
Bank borrowings	*13*	**974,110**	929,068
Provision	*14*	**9,184**	9,499
Tax payable		**62,020**	89,804
		3,613,544	3,909,286
Net current assets		**874,033**	848,476
Total assets less current liabilities		**2,088,981**	2,122,788

	NOTES	**30.6.2021**	31.12.2020
		US$'000	*US$'000*
		(unaudited)	(audited)
Capital and reserves			
Share capital		**323,393**	325,800
Reserves		**1,723,403**	1,749,632
Equity attributable to owners of the Company		**2,046,796**	2,075,432
Non-controlling interests		**6,528**	6,636
Total equity		**2,053,324**	2,082,068
Non-current liabilities			
Deferred tax liabilities	*10*	**7,395**	11,504
Deferred income	*15*	**9,573**	9,778
Lease liabilities		**18,689**	19,438
		35,657	40,720
		2,088,981	2,122,788

Notes:

1. INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2021 are unaudited, but have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The unmodified review report will be included in the interim report to be sent to the Company's shareholders.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. The Group provides a wide range of manufacturing services to its customers in connection with the production of handsets.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2020.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 16	COVID-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2

The application of the amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. 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.

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$3,937,867,000 (2020: US$3,668,273,000), to its customers in connection with the production of handsets.

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

	Six months ended	
	30.6.2021	30.6.2020
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Segment revenue (external sales)		
Asia	**3,451,984**	3,351,241
Europe	**280,360**	212,363
America	**205,523**	104,669
Total	**3,937,867**	3,668,273
Segment profit		
Asia	**52,853**	12,050
Europe	**8,335**	6,453
America	**13,827**	7,720
	75,015	26,223
Other income, gains and losses	**60,188**	65,348
General and administrative expenses	**(99,906)**	(92,747)
Research and development expenses	**(62,687)**	(82,200)
Interest expenses	**(3,928)**	(7,694)
Share of (loss) profit of associates	**(96)**	4,118
Loss before tax	**(31,414)**	(86,952)

Majority of the Group's sales to Asian customers are attributed to the People Republic of China (the "PRC") included in Asia.

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 resources allocation and performance assessment.

5. INCOME TAX CREDIT (EXPENSE)

The income tax (credit) charge comprises:

	Six months ended	
	30.6.2021	30.6.2020
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Current tax:		
— Hong Kong	**–**	–
— Other jurisdictions	**3,174**	15,776
	3,174	15,776
Overprovision in prior periods:		
— Hong Kong	**–**	–
— Other jurisdictions	**(3,900)**	(1,288)
	(3,900)	(1,288)
Deferred tax *(note 10)*		
Current period	**(2,359)**	(142)
	(3,085)	14,346

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% (2020: 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. In addition, two of the Company's PRC subsidiaries were entitled to a concessionary tax rate of 15% under the China's "Great Western Expansion" campaign. Except for these subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2020: 25%).

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

6. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2021	30.6.2020
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**91,070**	91,079
Depreciation of right-of-use assets	**3,071**	3,752
Depreciation of investment properties	**1,316**	393
Total depreciation	**95,457**	95,224
Less: Amount capitalised in inventories	**(74,768)**	(79,878)
Less: Amount included in research and development expenses	**(5,503)**	(4,919)
	15,186	10,427
Cost of inventories recognised as expense	**3,853,804**	3,628,008
Gain on disposal of investment properties	**–**	(657)
Provision for warranty	**1,258**	3,143
Write down of inventories to net realisable value	**20,488**	39,787
Impairment loss recognised in respect of trade receivables, net	**4,803**	7,045
Net gain arising on short-term investments at fair value through profit or loss ("FVTPL")	**–**	(1,572)
Net gain arising on equity instruments at FVTPL	**–**	(579)
Net exchange loss (gain) (included in other income, gains and losses)	**10**	(7,064)
Gain on disposal of property, plant and equipment	**(561)**	(16)
Interest income from bank deposits	**(16,352)**	(17,067)

7. DIVIDENDS

No dividend was paid, declared or proposed for the six months ended 30 June 2021 and 30 June 2020.

8. LOSS PER SHARE

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

	Six months ended	
	30.6.2021	30.6.2020
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Loss attributable to the owners of the Company		
Loss for the purposes of basic loss per share	**(28,184)**	(100,508)

	Six months ended	
	30.6.2021	30.6.2020
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**8,084,621,160**	8,203,000,000

No diluted loss per share for both periods were presented as there were no potential ordinary shares in issue for both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current period, the Group acquired property, plant and equipment of approximately US$53,614,000 (for the six months ended 30 June 2020: US$45,710,000).

In addition, the Group entered into several new lease agreements with lease term of two years (for the six months ended 30 June 2020: two to ten years). On lease commencement, the Group recognised right-of-use assets of approximately US$872,000 (for the six months ended 30 June 2020: US$17,712,000) and lease liabilities of US$872,000 (for the six months ended 30 June 2020: US$17,712,000). During the current period, the Group obtained ownership of certain leased assets with an aggregate carrying amount of US$11,885,000 (for the six months ended 30 June 2020: nil) at the end of the lease terms, which were subsequently classified as property, plant and equipment.

During the current period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of US$2,747,000 (for the six months ended 30 June 2020: US$4,359,000) for proceeds of US$3,308,000 (for the six months ended 30 June 2020: US$4,375,000), resulting in a gain on disposal of US$561,000 (for the six months ended 30 June 2020: US$16,000).

10. DEFERRED TAXATION

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

	Allowances for inventories and trade and other receivables	**Accelerated tax depreciation**	**Tax losses**	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000* *(Note)*	*US$'000*
At 1 January 2020 (audited)	(3,357)	9,336	(7,426)	(5,014)	(6,461)
(Credit) charge to profit or loss for the period	(903)	218	6,475	(5,932)	(142)
Exchange adjustments	162	(275)	951	643	1,481
At 30 June 2020 (unaudited)	(4,098)	9,279	–	(10,303)	(5,122)
At 1 January 2021 (audited)	**(2,309)**	**7,319**	**(6,959)**	**(6,930)**	**(8,879)**
Charge (credit) to profit or loss for the period	**218**	**(2,872)**	**319**	**(24)**	**(2,359)**
Exchange adjustments	**(11)**	**57**	**(36)**	**(31)**	**(21)**
At 30 June 2021 (unaudited)	**(2,102)**	**4,504**	**(6,676)**	**(6,985)**	**(11,259)**

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

For the purposes of presentation in the condensed 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:

	30.6.2021	31.12.2020
	US$'000	*US$'000*
	(unaudited)	(audited)
Deferred tax assets	**(18,654)**	(20,383)
Deferred tax liabilities	**7,395**	11,504
	(11,259)	(8,879)

At 30 June 2021, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$107,918,000 (31.12.2020: US$98,539,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 30 June 2021, the Group has unused tax losses of approximately US$2,102,808,000 (31.12.2020: US$2,060,635,000) available for offset against future profits. As at 30 June 2021, a deferred tax asset has been recognised in respect of approximately US$22,253,000 (31.12.2020: US$23,196,000) of such losses. As at 30 June 2021, no deferred tax asset has been recognised in respect of the remaining tax losses of US$2,080,554,000 (31.12.2020: US$2,037,439,000) 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.

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$894,131,000 (31.12.2020: US$986,276,000) 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.

11. TRADE AND OTHER RECEIVABLES

	30.6.2021	31.12.2020
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables	**1,829,074**	2,049,158
Less: Allowance for credit losses	**(12,661)**	(7,883)
	1,816,413	2,041,275
Other taxes recoverable	**201,918**	189,480
Other receivables, deposits and prepayments	**107,751**	123,472
Total trade and other receivables	**2,126,082**	2,354,227

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 of 30 to 90 days to its trade customers, except certain customers with a good track record which may be granted a longer credit period. Due to the COVID-19 pandemic and lockdowns in various countries, the payments from certain customers have been deferred.

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:

	30.6.2021	31.12.2020
	US$'000	*US$'000*
	(unaudited)	(audited)
0 — 90 days	**1,664,068**	1,940,908
91 — 180 days	**133,474**	85,514
181 — 360 days	**18,796**	6,328
Over 360 days	**75**	8,525
	1,816,413	2,041,275

As at 30 June 2021, the Group provided impairment allowance of US$12,661,000 (30.6.2020: US$8,556,000) based on the Group's expected credit loss assessment on its trade receivables.

12. TRADE AND OTHER PAYABLES

	30.6.2021	31.12.2020
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade payables	**1,756,046**	1,904,474
Other tax payables	**67,914**	155,568
Accrued staff costs and employee benefits	**139,905**	168,218
Others	**521,180**	532,214
	2,485,045	2,760,474

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

	30.6.2021	31.12.2020
	US$'000	*US$'000*
	(unaudited)	(audited)
0 — 90 days	**1,606,825**	1,823,058
91 — 180 days	**119,947**	54,523
181 — 360 days	**18,207**	11,404
Over 360 days	**11,067**	15,489
	1,756,046	1,904,474

13. BANK BORROWINGS

	30.6.2021	31.12.2020
	US$'000	*US$'000*
	(unaudited)	(audited)
Bank loans	**974,110**	929,068

Analysis of bank borrowings by currency:

	30.6.2021	31.12.2020
US$	**973,300**	927,300
INR	**810**	1,768
	974,110	929,068

The bank borrowings as at the end of the reporting period are unsecured, with original maturity of one to three months (31.12.2020: one to two months), repayable within one year and carry interest at fixed interest rates ranging from 0.55% to 5.90% (31.12.2020: 0.72% to 5.90%) per annum.

14. PROVISION

	Warranty provision *US$'000*
At 1 January 2020	13,185
Exchange adjustments	472
Provision for the period	3,376
Utilisation of provision	(7,534)
At 31 December 2020	**9,499**
Exchange adjustments	**63**
Provision for the period	**1,258**
Utilisation of provision	**(1,636)**
At 30 June 2021	**9,184**

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.

15. DEFERRED INCOME

	30.6.2021 ***US$'000*** **(unaudited)**	31.12.2020 *US$'000* (audited)
Government subsidies	**9,573**	9,778

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

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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 condensed 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 banks that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

	As at 30 June 2021		
Financial assets/liabilities subject to offsetting	**Gross amounts of recognised financial assets (liabilities)** *US$'000*	**Gross amounts of recognised financial (liabilities) assets set off in the condensed consolidated statement of financial position** *US$'000*	**Net amounts of financial assets (liabilities) presented in the condensed consolidated statement of financial position** *US$'000*
Bank balances	**711,045**	**(711,045)**	**–**
Bank borrowings	**(711,045)**	**711,045**	**–**
Interest receivables	**4,274**	**(3,815)**	**459**
Interest payables	**(3,815)**	**3,815**	**–**

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

During the period, net interest income of US$1,011,000 (for the six months ended 30 June 2020: US$1,597,000) was included in interest income under the above arrangement.

IMPORTANT

The Group's consolidated interim results for the six-month period ended 30 June 2021 (the "current period" or the "reporting period") as set out in this announcement are unaudited but have been reviewed in accordance with the relevant financial standards. The Group's results of operations in the past have fluctuated and may in the future continue to fluctuate (possibly significantly) from one period to another period. Accordingly, the Group's results of operations for any period should not be considered to be indicative of the results to be expected for any future period.

The Company (also referred to as "we", "our" or "us" below) refers to its announcements of 5 February 2021, 12 May 2021 and 23 July 2021 respectively, which in turn referred to (among other things) the novel coronavirus (COVID-19) outbreak and component shortages and price hikes 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" section below.

This announcement contains forward-looking statements regarding the Company's expectations and outlook on the Group's business operations, opportunities and threats and prospects. Such forward-looking statements are subject to risks and uncertainties and do not constitute guarantees of the future performance and order book 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 and related mutations, the scope and duration of the COVID-19 outbreak and its impact on our sites and customers and suppliers and supply chain and component supply and operations due to quarantines, travel restrictions, lockdowns, business curtailments, resurgences and safety concerns and anticipated impact of COVID-19-related government relief measures, changes in sales and product mix and asset utilisation, anticipated restructuring actions and costs, changes in commodity price, shortage of components (like chipsets and displays), and materials constraints and prolonged delivery lead time and delays in the delivery and availability of components, services and materials, 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, price and margin erosion pressure, managing fluctuations in customer demand and other related customer challenges that may occur, seasonality of sales, shifting of end-user preferences and behavior and higher revenue volatility, 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, India's PLI (Production Linked Incentive) policy), obtaining or renewing or meeting the conditions of tax incentives and credits, timing of receiving government compensations, the potential adverse impacts of events outside of our control, policies or legislation instituted or proposed by Biden administration in the U.S. uncertainty surrounding the impact of the new administration in the U.S.; tariffs on items imported into

the U.S. and related countermeasures. 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") section below. The Company undertakes no obligation to update or revise any such forward-looking statements to reflect any subsequent events or circumstances, except as otherwise required by applicable requirements laid down by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

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

DISCUSSION AND ANALYSIS

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (Hon Hai is a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation), and a leader in the handset industry worldwide providing vertically integrated manufacturing services to its customers. The business models offer a comprehensive range of end-to-end manufacturing and engineering services to its customers tailored to meet specific market and customer product lifecycle requirements in respect of handsets and other wireless communication devices and consumer electronic products. The products and services include 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, supply chain services and solutions, and repair and refurbishment 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 product and software development and 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 development and aspects of the supply chain and manufacturing and cost optimisation. 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 as entry barrier is low, especially when the excess manufacturing supply emerged due to the restriction been imposed to a major Chinese mobile brand company and restricted recovery due to COVID-19. Customers may shift production between EMS (Electronic Manufacturing Services) providers for a number of reasons. They include changes in competition landscape and demand for their

products, reshoring plans of suppliers, 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, enterprise risk management, optimisation of logistics costs, 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 of location of their EMS suppliers. COVID-19 and the trade war between the United States and China have forced companies all over the world to re-evaluate their supply-chain arrangements, several reports have discussed an exodus from China, either to neighboring countries, such as Vietnam and India, or back to their home countries as part of a process known as "reshoring". As a result, customer and segment revenue and mix, as well as overall earnings, may fluctuate. Countries with large number of domestic consumers would witness home grown manufactures of OEMs and ODMs, mainly driven by initiatives of the respective governments.

In regards to the global consumer electronics industry, the persistent COVID-19 challenge has catalyzed the acceleration of digital transformations, demand for consumer electronics spiked, causing an urgent need for devices supporting activities such as work from home and remote learning. PC market is one of the significant beneficiaries of COVID-19 outbreak. According to International Data Corporation (IDC) research published on 10 March 2021, despite the ongoing semiconductor shortage, the shipments of notebooks is projected to exhibit an outstanding 22% upsurge in 2021 with record-breaking shipments of 268 million units. As for the Tablets, Canalys, the other research firm reported on 4 March 2021, expects that tablet shipments will experience unprecedented growth of 8% year-over-year with 174 million tablets shipped in 2021. Also, it is worth mentioning that many consumers have put health and fitness at the forefront of their minds during the COVID-19 pandemic, many of them bought wearable devices to help better monitor their own physical activity and health condition, according to data from IDC on 15 March 2021. IDC statistics indicated that wearable devices, including wristbands, earwear/hearables and watches, are expected to hit the record high of 548 million shipments in 2021 with 23% year-over-year increase. As consumer spending shifts to adjacent markets like PCs, tablets and wearable devices will exert a profound impact on smartphone business. As the whole world has been fighting the pandemic, the gradual demand recovery for smartphones is expected to record 1.38 billion shipments in 2021, yet the extent of growth will be confined under the weight of the second wave of COVID-19, with a conservative forecast of 7.7% annual growth over 2020. Innovative products, falling prices and rising consumer sentiment have supported demand for consumer electronics. However, some countries have approached mobile phone 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.

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. 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. This can allow the

customers to successfully navigate through difficult economic times such as the current COVID-19 pandemic. Uncertainty in the global economy and financial markets triggered by COVID-19 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, capital expenditures 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 Research and Development ("R&D") 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 worldwide.

The ongoing U.S. government sanctions on specific Mainland Chinese companies, and (among others) the ban on Mainland China's largest chipmaker, have contributed to supply tightness, and even severe shortages, in a wide range of common electronic components starting from the third quarter of 2020, with the possibility to continuing into 2022, according to CNN business report on 4 May 2021. The prolonged supply crunch has been a hindrance on the electronics marketplace, trickling down across the supply chain from consumer electronics to the automotive segment. Some common electronic components such as ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. were subject to compressed supplies, with rising prices and extended order lead times persist into 2022. Patrick P. Gelsinger, Intel CEO said during Taipei's Computex trade show on 31 May 2021: "It could take several years for a global shortage of semiconductors to be resolved", a problem that has shuttered some automotive production pipelines and adversely affected other industries, including smartphones and other consumer electronic products. The crunch in chipset supply is expected to "see a material improvement by the end of 2021 due to planned capacity builds and multi-sourcing initiatives." said by Cristiano Amon, President and Chief Executive Officer-Elect during Qualcomm quarterly earnings call on 28 April 2021. While several industries have taken proactive steps to mitigate near-term supply constraints, and global semiconductors manufactures have actively invested in foundry and factories expansion to ramp up production capacities, however, the dearth of supply will not be alleviated in the short term. "It could take years to address shortfalls in foundry capacity, substrates, and components", said Intel's CEO on 31 May 2021.

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. However, in view of the slowdown in growth rate of smartphones shipment, the Group is committed to diversifying the revenue contribution from mobile phones and mitigating the risk of dependence on a single product and region. For instance, 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 and core competences 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. In fact, in 2019, the Group established a wholly-owned subsidiary, Mobile Drive Technology Co., Ltd. (Mobile Drive), to develop the automotive business, focusing on in-vehicle infotainment system and Advanced Driver-Assistance System (ADAS) technology. The Company plays an active role in Hon Hai vertical integration and is part of MIH Open Platform Alliance ecosystem. Also, the Group has been rewarded several Internet of Things (IoT), Electric Vehicle (EV) components and networking products orders through the Group's outstanding NPI (New Product Introduction) and manufacturing abilities to continually optimise and increase the production utilisation, and even boost our profitability in the long term.

On 18 May 2021, the Group took a step further in its automotive business, and announced the signing of a non-binding memorandum of understanding with Stellantis N.V. (NYSE/MTA/Euronext Paris: STLA) ("Stellantis") to jointly develop infotainment, telematics and cloud service platform solution. Leveraging the Group's extensive knowledge of user experience and software development in mobile ecosystems, the collaboration will offer the disruptive smart cockpit solution, together with ancillary hardware (such as smart cockpit in-vehicle infotainment cluster front and rear seat display and infotainment, and telematics box) and software (such as AI-based applications, navigation, voice assistant, all-around visibility, e-commerce store operation, payment services integration, etc.) to seamlessly integrate the automobile into the driver's mobile-centric lifestyle. The Group has been closely working with the top OEM, first or second tier suppliers across Asia and Europe, and received several quotations already, and it is expected that ADAS solution, smart cockpit solution and multi-functional IVI (In-Vehicle Infotainment) system will be a promising business driver for the Group in the near future. At this stage, as the business environment of 5G, IoV and AI business segments is currently and expected to be dynamic and competitive on an on-going basis, the Group considers it is currently too early to predict with certainty their potential impacts to its overall performance as well as the prospects for the engagement in such business segments.

Key Relationships with Customers, Suppliers and Employees

Key Relationships with Customers

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 and to estimate order book. 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 in India and Vietnam, 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.

While the smartphone market underwent the gradual revival from COVID-19 in early 2021, the outbreak of the COVID-19 second wave heavily swept across several regions of the world in which the Group has operations, especially in Vietnam and India, it has had a profound impact on the local smartphone production volume and shipment and sales and our ability to estimate order book. Adverse second wave of new coronavirus infections impaired the handset industry, with rising demand uncertainty in terms of customer confidence in spending, might result a slowdown of smartphone growth in 2021 in those regions. The biggest smartphone market, China, saw a 110% year-on-year shipment upsurge in the first quarter of 2021 driven by the strong 5G mobile phones sales and various new smartphone models released according to China Academy of Information and Communications Technology (CAICT) report published

on 16 June 2021. In the second quarter, 5G smartphone shipment has already accounted for 76.1% of the total mobile phone shipment in China. However, the demand for smartphone in China subsided after the booming sales of 5G smartphone in the first quarter of 2021, the total shipment of mobile phone experienced a sharp decline in the second quarter, down 26.9% year-over-year, especially over 30% decline in April and May. Based on CAICT analysis, the slump in the smartphone shipment was mainly due to the early release of demand for smartphones in the first quarter of 2021 and the ongoing shortfall of semiconductor chips from the upstream supply, coupled with other smartphone manufactures inability to offset the substantial shipment plunge from Huawei smartphone.

On the other hand, the second largest mobile phone market, India, started 2021 on a positive note, posting an outstanding 18% year-on-year shipment growth in the first quarter, with a record of 38 million smartphone shipments, primarily propelled by the new models released paired with promotions and pent-up demand from 2020, according to the data collected by IDC on 11 May 2021. However, the onset of the second wave of COVID-19 toward mid-March showed no sign of slowing down as coronavirus cases reached an unprecedented peak in April and May, based on the BBC News on 31 May 2021. This massive second wave of COVID-19 has brought India economy to a stagnation, with lockdowns and restrictions have been imposed across several states, subsequently dampening the consumer demand for smartphones that were not considered a necessary category amid the restrictions. IDC expects smartphone shipments in India to slump in the second quarter of 2021, as ongoing COVID-19 second wave undermines the growth momentum of India smartphone business, leading to a decline in smartphone shipments forecast to single-digit growth in 2021. Similarly, the burst of COVID-19 in Vietnam rapidly spread toward late April 2021, striking heavily in the northern province of Bac Giangin in particular. The COVID-19 outbreak has devastated smartphone supply chain, forcing factories to operate below capacity or even lockout. According to Bloomberg news on 18 May 2021, four major industrial parks in Be Giang province were compelled to temporarily shut down on 18 May 2021, adversely affecting thousands of factories operated by domestic and international companies in Vietnam. But the situation improved gradually in July.

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 and volume of products and associated business models. The replacement/upgrade cycle of smartphone 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 smartphone is peaking up, the demand from replacing feature phones with smartphone 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.

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. The outbreak of the COVID-19 has made the electronics industry under pressure owing to the logistics slowdown, city shutdowns, supply interruption and lack of sufficient workforce across the globe and all of the Group's customers were impacted to a certain extent. What has been perhaps less visible but just as impactful has been the damage the virus has inflicted on the world's supply infrastructure and, in particular, global supply chains. From the moment a certain resource is mined or created to the time the consumer receives the final product, COVID-19 has affected every stage of the supply chain in a way few industry leaders will have ever experienced before or anticipated 18 months ago. Most of the world's manufacturers, wholesalers and retailers being significantly touched in one way or another. 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 more competitive 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 and diversifying country risk. This expansion and customer and product diversification effort 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. But it is a fact it is growingly difficult to develop new customers of large size and this is why the customer portfolio of the Group includes some small customers.

China's number one mobile phone brand in the previous years is one of the Group's key customers who has provided a material contribution to the Group's revenue, became a target in the United States of America (U.S.) and China's trade tension and been imposed with strict restrictions. According to the latest data issued by IDC, this customer's 2021 first quarter worldwide shipments dropped drastically to 14.9 million with a 69.5% year-over-year decline and moved to number 7 position as it continues to suffer under U.S. sanctions. With U.S. President Joe Biden being sworn into office, the sanction has not been revoked. On 21 May 2021, the Commerce Secretary, Gina Raimondo, told the public that the customer will be kept on the U.S. entities list, which continue to prohibit the sale of critical technologies to the company. On 26 May 2021, the CEO of the customer officially released its homemade operating system and disclosed the details of its new flagship smartphone. Unfortunately, the CEO said in the event, "For reasons you are all aware of, a launch date has not yet been set. But we are trying to figure out how to make this great product available to you." It obviously indicates the customer still suffered from certain obstructions on the way to develop new phones. Nevertheless, since last year, the customer has put lots of effort into transforming and restructuring the business. The customer took advantage of many resources from the mobile phone division to aggressively develop the automotive business. As the customer changed its development direction, the Group has accordingly adjusted the resources and manufacturing capacities to respond. It also fits our objective of reducing the reliance on smartphones. On the other hand, its spin-off company has yet to regain the market shares took by competitors. According to a Canalyst report published on 29 April 2021, "Honor is also a looming threat. It has already struck supply chain deals and is now signing distribution agreements to re-enter several markets in the second half of 2021." It expects to release new models in late 2021 or early 2022, but we still take a conservative view on the revenue contribution from the spin-off brand.

With the other key Chinese customer's strong growth, the Group's negative impact resulting from the above-mentioned customer was offset partially. The customer reported the first-quarter financial results, with a revenue from smartphone growth of 69.8% year-over-year, as it captured market share from one-time sector leader. In addition, according to IDC, the customer's shipment of the smartphone market in mainland China increased 92% and 47% in the first and second quarter respectively, due to the low shipments in the base year caused by COVID-19 and the major competitor retreated from the market. However, the customer has also suffered from the chip shortage problem, as well as the pandemic burst in India in April 2021. The Group was hampered by a lack of components to lower a part of capacities, resulting in the decline in shipment. According to IDC, the customer's shipment in India only made a 3.0% year-over-year growth rate in the first quarter. Also, as COVID-19 safety protocol and headcount shortage in India, the Group declined manufacturing capacities further in the second quarter of 2021. Yet, it is worthy to note that even though the customer was affected by the shortage of semiconductor chips and COVID-19, the customer officially announced that it would not modify the forecast shipments of 2021, which is not in line with the market rumors, and it shows the customer still see a strong demand from the mobile devices in the future.

Another of the Group's customer, HMD Global Oy ("HMD") is the home of Nokia phones and HMD Services, headquartered in Finland. HMD's mission is providing accessible connectivity for everyone and is grouped under the European segment. With an ongoing commitment to security, durability, reliability, and quality across its range, HMD is the proud exclusive licensee of the Nokia brand for phones, tablets and accessories. Since 2019, HMD has transformed its business to ensure continued growth. First HMD strengthened its supply chain by moving smartphone manufacturing to multiple ODM vendors, to secure competitiveness and to improve the excess liability conditions. This renewal has resulted in improvements of the on-time delivery, time-to-market rates, and profitability in 2020. The management of volume adjustment related liabilities has significantly improved from the previous years. The first half of last year was affected by the COVID-19 pandemic, due to HMD's increased efforts in online stores, the situation improved in the second half. The global eco-system remains challenging with global production bottlenecks in semiconductors and other important components. HMD transformed its sales and marketing approach, moving its focus on digital first. HMD started building its global "Direct to consumer" platform with the introduction of its new e-commerce channels and online stores that sell HMD's devices and services directly to consumers and enterprises. The first new online stores were opened in the UK and U.S. in 2020, and the concept was rapidly expanded after the fiscal year ended in early 2021, so that they now cover 14 markets. The supply constrains have impacted the whole industry in unprecedented ways during the first half of 2021 while the COVID-19 pandemic waves have tormented key emerging markets like India. These supply shortages and increased component prices are impacting also into HMD's performance. HMD has continued its efforts with its partners to secure the supply volumes to meet the forecasted demands. Despite the challenging market conditions HMD's quarterly sales figures have significantly increased year on year basis and HMD is satisfied with the gross margins achieved. As an expansion of the 2020 launched HMD Connect Pro service, HMD announced in June 2021 collaboration with Nokia by using Nokia's Worldwide IoT Network Grid (WING) to enable seamless global IoT connectivity for HMD's IoT solution for enterprises. The collaboration will allow enterprise customers of the HMD Connect Pro service to track and manage connected devices around the world. On April 2021 HMD launched its first MVNO service in UK as part of its long term Connectivity strategy.

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. There has been very strong market demand of eReaders and voice interaction products as one of the Ensky's U.S. customers has been growing very fast and dominant worldwide. 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, has launched their android mobile phone at the top of the ranking in Japan market for four consecutive years since 2017. 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.

One of the top five customers of the Group is the Hon Hai Technology Group (to which Ensky and Sharp belong). The revenue derived from the sales of goods and rendering of services by the Group to Ensky and Sharp accounted for approximately 16.8% and 12.8% of the Group's total revenue from the sales of goods and rendering of services respectively for the current period. 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 31.2% of the Group's total revenue in 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, 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 smartphones to customers and consumers worldwide. In the second half of 2020, the customer released its 5th generation smartphone and the first 5G mobile phone, successfully capturing the market's attention. According to CNBC news, the newly released smartphone saved money to make it more affordable resulting from its mid-range Qualcomm processors, compared to another flagship phone embedded with Qualcomm's latest Snapdragon 865+ chip. The customer also said the phone's cameras is "best one yet." Although the phones haven't had a huge market share, it might be a way to attract consumers to its Android mobile platform by offering relatively affordable phones that provide the best integration with more apps and an edge-cutting camera that rivals more expensive phones. Like all mobile phone companies, this customer was also impacted by component shortage in the first quarter of 2021.

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 96.3% 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 three 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 overheads 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, will affect contribution margins directly and accordingly gross profit margins and results of operations seriously.

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$4.8 million (when compared to the allowance for credit losses of US$7.05 million made for the same period in 2020), while allowances were made for specific exceptional circumstances and based on the expected credit allowance assessment. The decrease in allowance for credit losses was due to improvement in aging of account receivable by actively monitoring the collections from customers. 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 also 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 like HMD 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 those trade receivables when payments from certain customers of the Group have been deferred, the Group has increased its allowance for credit losses arising from those 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.

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 Group aims to keep growing fulfillment service and regional manufacturing services to automotive and medical and health customers and developing repair/refurbish service to medical industry. The core competencies which the Group upholds and demonstrates in this part of business are (1) strong core team with talents

and expertise in the field of both EMS and after-market services area; (2) geographically central location advantage for logistic services and proximity location advantage of Mexico site for manufacturing strategies under trade war; (3) robust quality system and crucial certifications, like ISO 13485 for medical and IATF16949 for automotive; (4) high-mix-low-volume flexible support model and end-to-end business solutions, from design, production, fulfilment to after-market services; (5) comprehensive product engineering capability; and (6) E2E (End-to-End), complete after-market service solutions and online-offline operation integrations, and customised service-models.

The operation in the States and Mexico has gradually recovered to normal, thanks to the successful vaccination roll-out in the States. But the business impact of COVID-19 to those sites will be perpetual, even after the pandemic. It is due to the change of consumers behavior in U.S. market during the COVID-19. It induced the physical retail chain store shut down and product return volume from retail store dropped dramatically. It also drives OEM to change their product design and repair policy which causing the previous smartphone refurbish business model change.

Impacts of COVID-19

In its initial months of 2020, the coronavirus crisis severely disrupted the movement of people and goods worldwide, upending entire supply chains and this has had a considerable impact on the world's manufacturing industry. Manufacturing operations came to a standstill as most countries implemented lockdowns to curb the spread of COVID-19 and factories were forced to close or to operate on vastly reduced staffing levels, which left them at a fraction of normal output. At the same time, industries including hospitality, retail and travel have been affected due to the significant drop in consumer spending across the world.

Now things are slowly picking up again in 2021 and some markets become booming. The impact on supply-side capacity of the market is currently minimum as manufacturing in China has resumed, Consumer electronics industry has taken a toll due to outbreak of COVID-19 pandemic, across the globe. Globally, hypermarkets, supermarkets, and showrooms of leading brands have been shut down, affecting sales of various consumer electronics products. Due to implication of the measures amid lockdown, enterprises across the globe have adopted remote working as a tool to continue with their business processes. Work from home (WFH) for employees has led to increase in demand for computers, laptops, and peripherals. Webinars and online meetings have positively impacted the sales of headphones and Bluetooth earphones. Due to increase in demand for remote connectivity, sales of networking devices and connectivity hardware solutions has increased multifold. All these put huge pressure on the factories to produce more parts. Although a lot of the manufacturers have since found ways to cope with the unending pandemic's fallout, the operational disruptions of manufacturers have continued to affect global supply chains in 2021. Consequently, this directly impacts order levels of components as they reach maximum capacity, therefore lead times are extended and pricing increases. In addition, the capacity on air and sea freight is still limited due to lockdowns and gets more and more expensive. This causes even longer lead times and higher costs. Moreover, factories concentrate their resources on a smaller range of products which may force customers to use other products which are still produced. This causes even more demand for the existing parts and equipment investments are made to address this. However, lead times on manufacturing equipment are always long and the market

uncertainty means confidence in this investment is needed. Unfortunately not all industries will pick up to the levels they were at pre-COVID-19. On the other hand, many companies in the electronics industry find that they don't have the cash resources to support products with less obvious or immediate profits. Also, many manufacturers have taken the opportunity to streamline their product lines. The support for older products or less profitable product ranges has been withdrawn. This has had a knock-on effect down through the supply chains. Furthermore, components which were near the end of their profit curve are no longer being supported. Containment measures, infection outbreaks, labor unavailability, and component shortages continue to be a drag on business operations and recovery. All parts of the supply chain must come together to orchestrate the smooth planning and execution of operations. The global coronavirus pandemic has challenged the modern global supply chain like never before. Supply chain resilience has conventionally focused on protecting largely against single point failures — for instance, identifying a key component and dual sourcing to ensure continuous supply. But COVID-19 has had a truly global impact, where many supply chains have faced multiple fractures — at component suppliers, at manufacturing sites and in the 'last mile' to the customer. It is difficult, if not impossible, for firms to have redundancy across all those operations and still maintain efficient supply chains.

No company is immune to the challenges, and the repercussions of the health crisis have been felt for a prolonged period of time. 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. However, the resurgence of COVID-19 in Asia has to certain affected the Group's operation. The outbreak of the COVID-19 second wave in the 2nd quarter heavily swept across several regions of the world in which the Group has operations, especially in Vietnam and India which implemented different levels of local lockdowns, precautionary and quarantine measures as well as travel restrictions. These measures have impacted the Group's India and Vietnam manufacturing activities as well as a slowdown in overall local demand and commercial activities for some time, all of which have contributed to a pressure on the recovery of the Group's sales, revenue, asset utilisation and contribution margin in these areas. It also has had a profound impact on the online and offline sales of phones of our customers. Adverse second/future wave of new coronavirus infections impaired the handset industry, with rising demand uncertainty in terms of customer confidence in spending, might result a negative impact of smartphone growth in 2021 in those regions. According to an IDC report on 30 July 2021, global smartphone shipments reached 313 million units in the second quarter of 2021, representing 13.2% year-over-year growth. Yet, the second outbreak of COVID-19 demolished not only the mobile phone supply but also the consumer demand. The latest IDC figures showed a modest 7.7% year-over-year growth in 2021 with a total of 1.38 billion smartphone shipments. The recovery of the smartphone business will be a challenge in the coming quarters with the uncertainty of end demand and the continued outbreak of coronavirus infections. The Group continues to put a lot of efforts to try to overcome the difficulties and 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. In addition, there are also other challenging conditions that the Group has been facing since late 2017 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. The ultimate size of the impact of the COVID-19 pandemic on the Group's business and its duration will depend on future developments which cannot currently be predicted. These include infection resurgences and mutations, government responses, the speed at which our suppliers and logistics providers can return to and maintain full production, the status of labor shortages and the impact of supplier prioritization of backlog. Even after the COVID-19 pandemic has subsided, we may experience significant adverse impacts to our businesses as a result of its global economic impact, including any related recession, as well as lingering impacts on our suppliers, third-party service providers and/or customers (including movement of production in country to decrease global exposures). 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.

Vietnam Site

Vietnam is one of the most promising land for next industrial boom. Vietnam's development over the last 30 years has been remarkable. As per statistics, between 2002 and 2018, GDP per capita is increased by 2.7% reaching over US$2,700 in 2019. As Vietnam's economy is deeply integrated with the global economy, it has been hit by the ongoing COVID-19 pandemic, but has shown remarkable resilience. Challenges in 2020 due to COVID-19 pandemic continued in 2021 also, but due to strict COVID-19 preventive measures from government the life in Vietnam back to normal. Vietnam was one of the few countries in the world which shown a GDP growth of 2.9% in 2020. Vietnam's economy is set to grow 6.6% in 2021 on the back of successful control of COVID-19 infections, strong performance by export-oriented manufacturing and robust recovery in domestic demand. Foreign Direct Investment (FDI) commitments during the first quarter of 2021 surged by 18.5% year-on-year to US$10.13 billion, a report of Vietnam's Ministry of Planning and Investment. Vietnam is experiencing rapid demographic and social change. Its population reached 96.5 million in 2019 (up from about 60 million in 1986) and is expected to expand to 120 million by 2050. According to the 2019 Population Census Report, 55.5% of the population is under 35 years of age. Between 2010 and 2020, the HCI (Human Capital Index) value for Vietnam increased from 0.66 to 0.69, which is well above the world's average of 0.56. All these shows Vietnam's potential to become promising land of business opportunity.

The year 2021, started with positive note for Vietnam due to its most successful COVID-19 prevention model and also US-Sino trade war. The Group's Vietnam site also experienced the COVID-19 turbulence which impacted globally, but has been managed well by strictly following & implementing the COVID-19 preventive measurements issued by the Vietnam government. But from May 2021 onwards, Vietnam also experienced abnormal increases in COVID-19 cases, especially in the industrial area like Bac Ninh, Bac Giang & also Ho Chi Minh city. This COVID-19 wave impacted to our Vietnam factory also, as it operates in Bac Ninh industrial area. Local government implemented strict COVID-19 preventive measures on all impacted area, but allowed companies to do "isolated production" for ensuring business continuity. From 1 June 2021 onwards, our Vietnam factory implemented "isolated production" which continued for whole month. During "isolated production", our Vietnam factory has arranged stay and other facilities to the employees who voluntarily come forward

to join this program. Accordingly more than 50% of employees stayed in factory and remaining employees "WFH" and during this period of time all of our Vietnam operation run as normal and business continuity was secured and all scheduled shipments were fulfilled and also conducted all the scheduled new product builds on time. By the end of June, COVID-19 in those area become under control and the government relaxed the controls and opened more areas. Accordingly, our Vietnam factory started normal operation mode in July.

More and more business especially in electronics manufacturing started flowing to Vietnam. Accordingly, our Vietnam operation got ample opportunities to diverse its business and it has started its business diversification even before this time in 2019 from traditional mobile phone manufacturing to more sophisticated smartphone, smart speaker and IoT modules. For further diversification and utilizing the new opportunities, our Vietnam operation expanded its business licenses and also acquired relevant process certifications and invested more to skill up its already experienced workforce and added additional capabilities to reap these benefits. It also further plans to diversify customer focus and elevates the operation efficiency to increase the competitiveness to next level.

India Site

From about 9,000 new cases per day (80 deaths per day) in middle of February 2021 to 400,000 new cases per day (4,000 deaths per day) in first week of May 2021, India's total death count surpassed 300,000 making it the third most impacted country after U.S. and Brazil. In order to maintain a balance between cost of lives and cost of livelihood, the Indian prime minister advised respective states to take measures depending of the severity of crisis locally and keep lockdown only as the last resort. Majority of states including Maharashtra (which is the largest contributor to India GDP and hosts the financial capital Mumbai) Delhi, Karnataka, Tamil Nadu, Andhra Pradesh and Rajasthan etc. announced lockdowns to curb the spread of virus.

However, unlike 2020 when all industrial activities in India came to a sudden halt because of national level lockdown, the Group's India management planned in advance for all contingencies including a lockdown. They sought special permit from the state government of Tamil Nadu to run its operations by getting classified under Continuous Process Industry which are allowed to function even under lockdown. e-Passes for seamless movement of staff/operators from one district to other/one state to other and containment zones were quickly arranged. Close communication and co-ordination with government will be done from time to time. New recruitment was stopped temporarily at both Andhra Pradesh and Tamil Nadu sites to prevent the risk of spread of infection. Offer letters to indirect staff and Graduate Engineer Trainee (GET) were delayed till improvement of situation. During lock down & restart of operations, to retain the required number of operators to support existing production at both sites recommendation was made to prioritize retention of dorm operators from farther distances by offering them reward. Likewise, dorm stay of essential staff was planned to support operations under captive mode.

In terms of precautionary measures, the following are being undertaken. Antigen testing is being conducted before boarding of the new employees or those returning to work after long gap. Regular temperature screening is performed before boarding of buses, entry into dorms and factory by EHS Team. Periodical sanitization is done in all areas of factory, dorms, canteen and vehicles. Masks are mandatorily distributed to all those who are entering into buses, factories and dorms. Awareness training is given to all workers including drivers, housekeeping, security, wardens, contractors, vendors etc. Constant supervision and monitoring is carried out within factory and dorm premises and buses to ensure compliance with COVID-19 protocols. Production targets can be comfortably exceeded because of proactive measures taken in advance. 410 staff members were provided with VPN connections under WFH setup. EHS Department ran a 24x7 support helpline with special task force to support employees & families for any medical emergencies. Oxygen concentrators have been stocked to readily support the Group's India factory staff and their dependents.

While the Group's India factory was managing the crisis, its peers nearby either completely shut down all their plants or cut production significantly mainly because of domestic sales crash to near zero amid local lockdowns, restrictions on online sales of non-essential goods and COVID-19 infections among plant workers. Some big companies in the region were running significantly scaled down production units, at 25 to 40% of capacity, just to cater to global markets. A leading homegrown contract manufacturer shut down its lighting production while lines for appliances and TV are running at 30 to 50% capacity. Most companies were carrying over a month's inventory which was sufficient to cater to demand. The Group's India operation through its industry association ICEA wrote a letter to the minister of electronics and IT, Ravi Shankar Prasad, seeking vaccination for all industrial workers on a war footing. After surpassing the peak of second wave, many of the firms are now starting up in a calibrated manner.

India's smartphone shipments grew 23% (on-year) in first quarter 2021 to reach over 38 million units. However, as per the report released by Counterpoint Research on 13 May 2021, the second wave of COVID-19 has hit the smartphone players in India and the market is likely to see a decline of nearly 12 million units — from 182 million to 170 million — for the year. It estimated that India's smartphone market will witness a significant dip of more than 30% in the ongoing second quarter (April-June period) and the festive season and pent-up demand are expected to drive the market in third quarter and fourth quarter 2021. Smartphone forecast for second quarter 2021 has been trimmed to 26 million units from 39 million units in previous forecast. Overall, the Indian smartphone market is estimated to grow by 12% (YoY) to reach 170 million units in 2021. In order to overcall the shortfall from offline sales, smartphone brands have strengthened their hybrid offline-to-online strategy by leveraging the Whatsapp and SMS channels to push sales with retail channels, mainly the offline one. Even as India is attracting all the global attention for the worst virus outbreak, the pandemic has done little to dent the confidence of overseas investors who are betting on a strong rebound. India has been one of the best performing major market over the past year and recently hit a milestone of US$3 trillion market capitalization which is expected to grow to US$3.5 trillion with listing of India's largest insurer Life Insurance Corporation of India (LIC).

After concerns in April 2021, Indian Rupee has turned Asia's best performer. The Reserve Bank of India, in its annual report released on 27 May 2021, stated that Indian economy not as hard hit as first wave but uncertainties remain and that India's growth prospects primarily hinge upon how fast the economy can arrest the impact of the second wave of the COVID-19 pandemic. It said that although the economy was hit by the second wave of the coronavirus pandemic, it remained resilient on the back of a bountiful harvest in the RBI farming season as well as the momentum of activity in sectors such as road construction, information technology, housing, and freight transportation. Although there has been a raft of revisions to growth projections due to second wave, the central bank, in the report, once again pegged a 10.5% growth for India's economy for the 2021–22 financial year. The pandemic, it added, "is the biggest risk to this outlook. Yet, upsides also stem from the capex push by the government, rising capacity utilisation and the turnaround in capital goods imports."

From the end of May 2021, there has been a steady decline in new cases and deaths per day from 150K and 3K to 40K and 600 respectively by mid-July 2021. Lockdowns, higher testing rates and faster roll out of vaccination covering wider segment of the population seem obvious reasons for this decline. By mid-June, many Indian states eased coronavirus restrictions as the number of new infections dropped to the lowest in more than two months. As of 16 July 2021, India's overall positivity rate stands at 1.9%. Positivity rate is a crucial metric that shows how widespread the virus is in the community. However, around 73 districts still have more than 10% positivity. Also, nearly 80% of the total new cases have been reported from 90 districts, official data show indicating the second wave is now limited to certain areas needing focused measures and intensive restrictions to control further spread. Currently, India is doing 1,400 tests per million, which is 10 times the recommendations of the WHO. India's COVID-19 vaccination coverage has crossed the landmark of 39 crores as per a provisional report, said the Ministry of Health and Family Welfare on 15 July 2021. Of the total vaccinations administered to date, 80% are recipients of their first dose while 20% have received the second dose. Among states, Uttar Pradesh administered the most (cumulative) vaccine doses at 3.86 crore, followed by Maharashtra at 3.75 crore and Gujarat at 2.85 crore. India now has 429,946 active cases, down 2,832 cases in 24 hours, as per the 14 July 2021 update.

The Group's India operation has been able to continue running operations in a seamless manner since the announcement of lockdowns during the start of second wave in May 2021 since it sought special permit from the state government of Tamil Nadu by getting classified under Continuous Process Industry which are allowed to function even under lockdown. e-Passes for movement of staff/operators from one district to other/one state to other and containment zones were arranged. Unrestricted supply of nitrogen was ensured. Fresh recruitment was halted at both Andhra Pradesh and Tamil Nadu sites and issuance of offer letters were delayed.

The second quarter of 2021 recorded 30–32 million smartphone shipments, down from all-time high first quarter shipments of 38 million, according to preliminary numbers shared by leading market trackers including Counterpoint Research, IDC and CyberMedia Research (CMR). India's smartphone market has contracted by 15–20% sequentially in the April–June due to closure of both offline and online sales channels and tepid consumer demand, market trackers estimated. Vivo replaced Samsung as India's second ranked smartphone brand in the just ended quarter, with Xiaomi continuing as the market leader. A fast-paced recovery due to the pent-up demand in June supported quarterly shipments, after April and May were practically washed out, experts added. On year smartphone sales grew 64% from 18.2 million recorded in the second quarter of last year, which entailed a strict countrywide lockdown of 45 days. Analysts believe that the smartphone market will be back on track in second half of 2021, driven by strong push from mobile phone brands, earlier-than-usual festive sales, and potential consumer demand. However, some analysts expect a milder second half of 2021 compared to 2020 when shipments crossed a record breaking 100 million units in six months, given the ongoing supply chain challenges and an anticipated third wave of COVID-19. A global shortage of handset components like chipsets, display panels and memory chips have jacked up the bill of materials of a smartphone, contracting margins for major brands which in turn passed on the costs to end consumers. For the whole year, estimates point that the market will remain flat at 150 million shipments, equal to calendar year 2020 and 2019.

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 the difficult period of time, the Group has to preserve cash and control inventory level and working capital level. Considering unprecedented challenges generated by unbounded market volatility, effectiveness of supply chain management has practically driven the rise and fall of business since 2020. Among others, COVID-19 pandemic and trade tension between U.S. and China and component shortage clearly stood out as the key determinants under an extremely complex circumstance.

The Group's supply partners include suppliers for raw materials, chipsets, memory, electronic components and parts, display module, camera module, battery, connectors, 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 64.6% 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 which now becomes a common phenomenon and the customers are aware of such prolonged supply crunch. In addition, there are vast number of alternative suppliers in the market for the Group to work with when it is decided necessary. Apart from chipsets and displays, 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 and effort dedicated by the procurement team and material planners, the Company is still able to more efficiently manage both procurement and inventory, and has demonstrated proficiency and bargaining power in purchasing components at competitive pricing due to the scale of our operations and bulk volume of purchase and continuous interaction and networking 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 13.4% of the Group's total purchases in the current period.

Similar to most in the mobile phone business, the Group learnt the hard way over time in first half of 2021, market remains to be fully dominated by two rules breakers, COVID-19 pandemic and U.S.-China competition, by which the consequences are never seen or experienced in recent business history. The demand/supply situation in the market has never been about market capacity. The entire market is witnessing and, with no option, experiencing some major disruptions at global scale within a relatively narrow time window. Namely, challenges like continuing U.S./China conflict/competition in business, lasting COVID-19 pandemic since 2020, mis-judgement in some industries regarding demand recovery schedule, slower than expected vaccination coverage in most part of the world, local COVID-19 eruptions caused by new virus variants in the regions, logistics challenges in sea freight routes, normal organic growth in 5G communication, unexpected surge of work from home related electronic devices, autonomous driving vehicles and EVs, together they've created unprecedented complexity to following adjustment cycle, and, supply chains around the world need to be given time to react and adjust. And, the Group simply still is moving forward amidst the business and industry adjustment cycles. As adjustment cycle rolling, the Group began to experience a very significant price rise from almost all semiconductor component commodities and later to find similar price increase in non-semiconductor commodities, it became more of an "inflation like" price rise in all commodities. Supply constraints may obviously impact the Group's supply to end customers and at the same time its revenue, and,

rising component pricing will then put additional pressure to the margin over time. Starting from second quarter this year, a number of the Group's customers are being or will be impacted. However, as these businesses are in EMS model, material supply is clearly a much bigger challenge to the Group as margin can generally be secured under EMS operation.

For details, please refer to the "The Group's Value Chain" section of the Company's separate 2020 environmental, social and governance report as issued and published on 20 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 2020 corporate governance report, which forms part of the 2020 annual report of the Company as issued and published on 20 April 2021. In order to deal with lasting component shortage and inflation risk and minimise the impact on operations, the Group pays close attention to supply and market price trends and maintains good interaction and communication with customers and suppliers and logistic companies with flexible and efficient 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 and develop employees internally and to recruit outside professionals and build up the competences. 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 and promotion opportunities. The Group places great emphasis on career planning and talent development for employees in different countries by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency and technical development to enhance employees' capabilities, while external training programs include hands-on courses and workshops and seminars or conferences organised by external parties that provide excellent training and professional development opportunities for employees that bring theory and practice together to improve the competency of the Group. The Group prides itself on providing a safe, effective and congenial working environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been arranged and implemented to ensure a healthy and safe working environment. The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, training and development, knowledge building, motivations, rewards and retention, as well as localisation. The Group complies with relevant labour laws and regulations to protect employees' rights and interests. The Group always emphasises employee benefits as well as harmonious labour relations, and highly

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

While the Group is following the requirements of governmental authorities to contain spread of COVID-19 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.

Amid the COVID-19 outbreak and rising positive cases especially in Bac Ninh area in May, our Hanoi site implemented "Isolated Production" which is required by local municipal to contain the outbreak in the factory. It is like bio bubble with no outside people interactions and employee can continue to work but they have to stay inside the factory or live in a fixed dormitory building and no contact with other people or participation in society is allowed. Furthermore, Hanoi site provides Vietnam Dong (VND)100,000 (USD4.30), three meals a day and other necessities to employees so they would not have to go outside.

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.

Safety is paramount. While India is facing a major challenge for the second wave of COVID-19 pandemic, India site has tightened COVID-19 prevention processes and continue the endeavour to educate employees, vendors and other personnel at the premises to observe the safety guidelines not only factories, but also at their homes and public places. India site also instituted a COVID-19 task force which looks into the audits for the various COVID-19 standard operating procedure in place, counselling employees for the need of maintaining COVID-19 protocols and also helping with the vaccination drives that have been planned at our sites. Antigen Testing is being done before boarding of the new/long leave employees after lockdown in to our factories. There are also regular temperature screening before boarding into buses, in dormitories and in factory entrances, periodical sanitization in all areas of factory, regular Mask distribution to all those who are entering in buses and factories (shift in & out) and dormitories, awareness training and regular inspections/audits by EHS team.

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 30 June 2021, the Group had a total of 56,832 (31 December 2020: 70,381) employees. Total staff costs incurred during the current period amounted to US$252 million (US$285 million for the first half of 2020 and US$191 million for the second half of 2020), 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 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 having affected its financial performance in 2021 to a certain extent.

The Group offers a comprehensive and competitive remuneration policy which is reviewed by the management on a regular basis. In general, the Group's merit-based remuneration policy rewards its employees for good performance, contributions and productivity. The Group treats all employees equally and fairly, and evaluates employee performance (including determining promotions and wage increments) objectively based on merit, ability, and competence. To encourage employee retention, the Group has implemented annual bonuses, time-based/performance-based incentives and other incentive programs. In particular, the Company has adopted the Existing Share Scheme and the Existing Share Option Scheme, respectively, as described in the section headed "Share Option Schemes and Share Schemes" of the Company's 2020 report of the directors, which forms part of the 2020 annual report of the Company as issued and published on 20 April 2021, pursuant to which (among other things) the Board (or its duly authorised officer(s) or delegate(s)) may, at its/their absolute discretion, offer share awards or share options (as the case may be) to the eligible employees of the Group and other eligible persons upon and subject to the respective terms and conditions set out therein. The Existing Share Option Scheme complies with the requirements of Chapter 17 of the Listing Rules. In addition, the Company has obtained approval from the Company's shareholders at its annual general meeting (held on 28 May 2021) for implementation and operation of two share option schemes at the subsidiary level of the Group (the "Subsidiary Share Option Schemes"), one relating to Mobile Drive (an indirect subsidiary of the Company incorporated in Taiwan whose principal business activities are provision of services to group companies, mainly research and development services) and the other relating to Bharat FIH Private Limited (formerly known as Rising Stars Mobile India Private Limited, an indirect subsidiary of the Company incorporated in India whose principal business activity is manufacture of handsets). During the current period, no share option was granted and no expense was incurred in relation to the Subsidiary Share Option Schemes. For details, please refer to the Company's circular as issued and published on 20 April 2021. The Group has also introduced non-monetary rewards (including housing incentives) for employees with exceptional performance and contributions. Employees also enjoy insurance coverage provided by the Group. The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Company's performance, their duties and responsibilities with the Company, their contributions to the Company and the prevailing market practices as well as the recommendations of the Company's remuneration committee. For details, please refer to the "Human Capital — The Group's Greatest Asset" section of the Company's separate 2020 environmental, social and governance report as issued and published on 20 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) product and service strategy and positioning and diversification, business segments, pricing strategy and policy, geographical footprint, competitive edges, core competencies, R&D capabilities, cost structure, it may be difficult to make direct comparisons at consolidated group account level as some peers may have business/product 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 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 operation management, productivity, yield control, direct cost control, manufacturing overheads control or a change in the pricing policies and overall cost competitiveness and market landscape.

The lingering and lasting of COVID-19 and resurgences and related restrictions and lockdowns in some countries have continued to adversely impact factory production, component supply and delivery lead time and prices, global supply chains and length of supply visibility and all of which have contributed to the Group's variable production in its factories and order fulfilment and the associated costs and affected the Group's operating results negatively and our customers. The degree of recovery and growth will be restricted in 2021 due to COVID-19 resurgences and infection outbreaks and containment measures and lockdowns, reduced discretionary spending, supply disruptions and tightness, labor unavailability and anticipated price hikes in components in upcoming quarters and all these will continue to be a drag on business operations and recovery. There are also actual and potential costs, expenses and/or losses arising from the Group's ongoing efforts to rightsize and/or to restructure and to remain lean and agile. As a result, the Group recognised a consolidated revenue of US$3,938 million, representing an increase of US$270 million or 7.3% when compared to US$3,668 million for the same period last year. Net loss for the current period was US$28.3 million, when compared to a net loss of US$101.3 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 2021 and there is continued pressure on the Group's gross margins generally and this is aggravated by the pandemic. Because of reduced entry barrier and keen competition and surplus capacity in the market, business of the Group has been facing strong headwinds. The Group has been putting effort on continuous development and penetration of the Chinese and international brand customers, expanding production capacity in India and Vietnam and R&D capability in India and increasing local sourcing in India, and maintaining 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 and this now becomes an industry norm. 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 at the same time writing off or disposing obsolete/under-utilised assets in 2020. The markets with fastest-growing smartphone demand are mostly developing countries, such as India… where the average income level is low and people tend to purchase much affordable mobile phones, which are low-end and mid-end models with lower margins. Consumers are becoming more price-sensitive and will also curtail spending and save for emergency healthcare expenses and keep more cash. The festive season demand rebound may not be as great as last year because students and professionals have largely catered to their needs in the past couple of quarters. 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 has extended to 2021. This key customer is likely to remain the key overhang in 2021 as U.S. sanctions choked its supply chain even as the overall smartphone market rebounded. 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. The Group has to write-off and impaired the under utilised asset and to carry out downsizing and restructuring activities and incurred restructuring costs significantly in 2020 and the impact has lasted to 2021. But the overall amount and impact has reduced this year. Though the increased order gain from other customers can partly offset/mitigate some of the above mentioned impacts, but there are other challenges triggered by COVID-19 and keen market competitions. The Group keeps seeking other business opportunities both in China and other locations and monitoring the market situation and intensifying competition in an effort to maintain our position and competitiveness and long term sustainability in the industry in different countries.

(2) as explained in above section of impacts of COVID-19, the pandemic has continued to affect the customers and suppliers and the Group's operation in 2021 and there is no big improvement in the Group's asset utilisation and the depreciation of the Group's low utilised properties and equipment still required to be recognised while they were temporarily idle. But thanks to the rightsizing/restructuring carried out in 2020, the utilisation should improve gradually when the market is picking up momentum after mass COVID-19 vaccination programme carried in different countries in 2021 and many of the world's major economies should be able to re-open gradually. Thanks to the fast recovery of China from the pandemic, the yield of PRC sites have improved dramatically from the third quarter of 2020 as there were no such production interruptions in China. But cash position of some of the Company's customers is still 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 continue to affect the customers and the suppliers and subsequently the Group's asset utilisation and production cycles and inventory management shipment and order fulfilment and contribution margin generated from operations and collectibles and affect our ability to cover fixed costs and our gross margins and results of operations. The ultimate size of the impact of the COVID-19 pandemic on our business and its duration will depend on future development which cannot currently be predicted. They include infection resurgences and mutations, government responses, vaccination rates, the speed at which our suppliers and logistics providers can return to and maintain full production, the status of labor shortages and the impact of supplier prioritization of backlog. Even after the COVID-19 pandemic has subsided, we may experience adverse impacts to our businesses as a result of its global economic impact, including any related possible recession, as well as lasting impacts on our suppliers, third-party service providers and/or customers and their behaviors.

    In April 2021, India saw a national resurgence of COVID-19 which has stretched its healthcare system, and due to another wave of local infections, several Indian state governments have announced complete/partial lockdowns. There are needs to continue to spend a lot of resources and effort on pandemic measures to strictly curb the spread of the virus so as to comply with local regulations and protect employees' health. Accordingly, the Group had to spend the additional and unexpected cost in the continuation of production in India in the second quarter. 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 and incremental overhead, expedite fees and freight premiums, sanitary supplies, personal protective equipment and rent of additional dormitories. In light of the reduction in capacity, India site has had to rearrange the shipment without violating any customer contract terms. But local management team succeeded to minimize impact of COVID-19 outbreak through adopting pro-active measures. The Group will continue to closely monitor the COVID-19 impacts on its present and planned operations in India.

    The Group's Hanoi management team also adopted "isolated production" and strict social distancing measures and succeeded to curb the outbreak of COVID-19 in the factory and minimize the impact to production interruption.

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.

For supply chain, as for the situation today, however, structural problems and limitations have clearly been exposed throughout the supply chain. And as the world strives to move into a post-COVID-19 reality, it seems highly likely that supply chains will be forever changed. U.S. President Joe Biden's signing of an executive order in February to review the systemic risks in the supply chains across several important industries, including agriculture, pharmaceuticals and semiconductors, suggests that, at least from a U.S. perspective, the effective management of those risks is being treated as a distinct priority. But companies, and in particular risk managers, must ensure that they not only adapt their supply chains to meet the demands of the new normal but also immediately identify the supply-chain deficiencies exposed by the pandemic and move quickly to correct them.

The Company is also localising manufacturing and material sourcing in some overseas sites. By moving a chunk of production towards the end consumer and therefore promoting the localisation of supply chains, manufacturing can be more resilient to global challenges. This strategy will likely increase costs, but it may also appease governments like India who sometimes introduce incentives to encourage companies to move the manufacturing and supply chains to their countries to boost local GDP growth and employment.

(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 and the poor situation continued into 2021. As explained in above paragraphs, during COVID-19, more people work from home and there is 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 2020. As mentioned in above sections of "Impacts of COVID-19" and "Key relationships with suppliers", some common electronic components such as ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. are subject to tighter supplies, with rising prices and extended order lead times. Though the increased order gain from other customers can partly offset/mitigate some of the impacts triggered by U.S ban on one the Group's major customer, the lasting pandemic limited the recovery path of these other customers. In addition, the Group may not be able to recover all of the

component price increase from the customers. In addition, Mainland China's smartphone 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$62.3 million, represented an increase of US$65 million gross profit from that for the same period last year. Gross margins for the current period was a profit of 1.58% and was better than the loss of 0.07% for the same period last year.

(4) In 2020, in view of the Group's changes in product portfolio and excess capacity (triggered by U.S. ban to one major customer and the pandemic outbreak), the Group refined its approach and took necessary steps with a view to becoming an asset-light corporate group. Accordingly, in 2020, the Group substantially impaired, disposed and wrote off various under-utilised/obsolete assets of US$42.6 million (2020 first half: Nil and 2020 second half: US$42.6 million). In addition, 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 had to incur restructuring costs and expenses of US$11.9 million (2020 first half: US$1.8 million and 2020 second half: US$10.1 million) which further affected the Group's 2020 final results. As the restructuring and rationalization take time, in 2021, the Group continued to incur actual and potential costs, expenses and/or losses arising from the Group's ongoing efforts to rightsize and/or to restructure. During the period, the Group recorded US$9.7 million on the restructuring costs and the expenses.

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 exercise of 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 in a China site to increase capacity driven by its major customer's growing demands) 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 long-lasting 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. There is also need to improve yield 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, efficiency and core competence. 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$76 million, representing a decrease of US$25 million from that for the same period last year. The Group has experienced a foreign exchange loss of US$0.01 million for the current period, compared with the Group foreign exchange gain of US$7.1 million in the same period of 2020 due to its holding of U.S. dollar assets. Renminbi (RMB) has continued to appreciate against U.S. dollar due to the U.S. Federal Reserve takes quantitative easing monetary policy and China's economy recovery from COVID-19. The Group will maintain its consistent hedging strategy in order to minimize impact generated by exchange rate volatility. Government subsidies for the current period were US$16 million (same period of 2020: US$22.6 million), including the relief packages related to COVID-19 of US$2.6 million. In addition, to lower the cost of production, beforehand 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.

Regarding operating expenses, for the current period was US$166 million, compared to US$182 million for the same period last year. For selling expenses, there was a year-on-year decrease by US$4 million as payroll costs dropped after restructuring and shipping cost reduced during the current period, while in the last year, logistics costs were higher due to COVID-19 outbreak. For R&D expenses, there was a decrease by US$20 million due to less professional service fee for low-ended handsets and reduction in payroll costs for the optimization and rightsizing of staff force and better cost control as a result of changes in the handset market. For general and administrative ("G&A") expenses, there was an increase of US$7 million and the increase was mainly due to severance payment of rightsizing/restructuring activities for exit from less profitable or loss-making or under-performing operations and more performance bonus has been provided for staff retention purpose during the current period.

Interest expenses for the current period was US$3.9 million, compared to US$7.7 million for the same period of last year. The decrease was mainly due to year-on-year decline in bank loan interest rate even though there is increase in average bank loan balance amount.

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. 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, optimise tax and interest costs, minimise other kinds of non-operating gains and losses (such as equity investments fair value change). These reflect 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$28.2 million, as compared to net loss attributable to the owners of the Company of US$100.5 million for the corresponding period last year. The net loss margin for the current period was 0.72%, as compared to the net loss margin of 2.74% for the same period last year.

ROE (Return on Equity) indicates 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 an organisation's profitability, but also its efficiency. A high or improving ROE demonstrates to your shareholder's that you're using their investments to grow its business 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. The Company's accumulated profits in generating income was 1.38% negative, when compared with the ROE for the same period last year of 5.33% negative.

Income tax benefit during the current period was US$3.1 million, when compared to income tax expense of US$14.3 million for the same period of last year. The income tax benefit was mainly due to realisation of temporary difference on accelerated tax depreciation during the period, while in the same period of last year, there was income tax incurred in certain profitable entities such as Mexico and India entities.

Basic loss per Share for the current period was US0.3 cent.

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 and strategy, financial performance and cash flow generated from operations, projected working capital and capital structure, future expansion plan and capital expenditure and capital requirements, cash position and other relevant factors as the Board may from time to time 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 and component shortage have led to a lot of uncertainties for the coming periods of time and the Group needs time to recover (please refer to "Outlook" section 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 11 August 2021, the Board resolved not to recommend the payment of an interim dividend for the current period.

Sales

For the current period, the Group recognised a consolidated revenue of US$3,938 million, representing an increase of US$270 million or 7.3%, when compared to US$3,668 million for the same period last year. The Group will continue to provide OEM and ODM service to China and 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 years ago serving international brands by manufacturing feature phones with the launch of smartphones and the subsequent popularisation which has driven smartphone 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 and margin. Compounding the difficulties for the global smartphone market is the fact that global shipments have faced the fourth year decline since 2016 due to saturation in certain markets. However, with surging demand in India and faster than expected adoption of 5G smartphones in China, the market exhibited a strong upturn in the beginning of 2021 from the pandemic. According to an IDC report on 30 July 2021, global smartphone shipments reached 313 million units in the second quarter of 2021, representing 13.2% year-over-year growth. Yet, the second outbreak of COVID-19 demolished not only the mobile phone supply but also the consumer demand. The latest IDC figures showed a modest 7.7% year-over-year growth in 2021 with a total of 1.38 billions smartphone shipments. The recovery of the smartphone business will be a challenge in the coming quarters with the uncertainty of end demand and the continued outbreak of coronavirus infections and component shortage.

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 smartphone 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 smartphone 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. However, even though we faced the intense competition, the overall performance will get better gradually driven by the recovery of COVID-19, upturn of better margin businesses and

product diversification and extension. As mentioned in the above sections of "Financial Performance" and "Sales", for the first quarter of 2021, the year-on-year increase of sales was mainly attributable to the booming shipments to our U.S. customers and the low revenue in the last same period. Furthermore, the changes in product mix with an increase in better margin businesses and escape from the expenses of pandemic prevention measures and improved production yield, have induced the net loss to improve further year-on-year.

In general, the Group has strived to invest in R&D and 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 4 of "Revenue and Segment Information" to the consolidated financial statements)

Following the Hon Hai Technology Group objective, the Group's future business plan would focus on remaining lean and asset light and margin escalation instead of revenue growth and continually monitor the market competition conditions to respond accordingly. Segment profit represents the gross profit earned by each segment and the service income (included in other income) after deducting all selling expenses.

Asia Segment

Despite of COVID-19, Asia segment continued to be the Group's core performance contributor in terms of sales turnover and segment profit in 2021. China is the first major economy to recover from the pandemic and the faster than expected pandemic recovery in China helped the Group's Asia segment year-over-year performance as there are no longer factory shutdown in China and yield and efficiency improved dramatically. In first half of 2020, the China operation was in a halt and there were idle costs and a lot of costs were spent on supplies and measures to curb COVID-19 outbreak in factories. One of the Group's major customers seized the market shares from its rival who is also the Group's customer suffering from U.S. restrictions. The shift of market share between both customers brought the positive outcome. On the other hand, the Group manufactures eReaders and voice interaction products which are not affected by COVID-19 as more people Work from Home. Some other customers are also recovering step by step. The revenue of Asia segment in the current period was US$3,452 million, representing an increase of 3% from that for the same period last year (2020: US$3,351 million). In the current period, Asia segment's recorded earnings were US$53 million which were higher than the recorded earnings of US$12 million for the same period last year and there was encouraging improvement in the performance.

(i) Some countries have approached mobile phone market saturation, leading to price competition and forcing industry operators to lower prices to gain competitive edge and profit margins throughout the industry shrink. 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. The Group has faced such challenges since late 2017 and has continued into 2021 and the difficult operational environment that the Group operates and faces prevails. This is one of the reasons why the Group is keen to develop some new businesses like the new joint venture formation with Stellantis and expand in India casing operation and R&D function to differentiate its offerings to customers. But with the improvement of product and customer and improvement in efficiency and yield (in particular China operation) this year, there was promising year-on-year improvement in margin performance.

(ii) Component shortage has annoyed the industry significantly and the shortage deteriorated in the third quarter of 2020 and the supply tightness was triggered by two major factors. Firstly, 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 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. were subject to tighter supplies, with rising prices and extended order lead times. In addition, Mainland China's smartphone 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 one of the Group's key customers who has provided a material contribution to the Group's revenue became a target in the United States of America (U.S.) and China's trade tension and been imposed with strict restrictions, sales to this customer have dropped. This has led to excess capacity and the Group has to carry out the rightsizing and restructuring actions in second half of 2020 which continued into 2021. Secondly, as mentioned in above section of "Impacts of COVID-19", COVID-19 outbreak and resurgences and people working from home have disrupted global supply chain and affected component supply and the recovery path of our customers and the behavior of end customers. The material shortage causes production efficiency challenges, operation cost increase and order fulfillment and shipment and sales. Also it is expected the problems of component shortage and price hikes and longer delivery lead time will continue for some time and overall supply constraint in semiconductor industry is still far from being over. It is very difficult to tell what's ahead and adjustment cycle could take another year. As market competition is keen, the Group may not be able to recover all of the increase of bill of material costs from some of the customers. Visibility of customers' demand is greatly shortened too. As explained, it is difficult to quantify impact amount of COVID-19.

(iii) The repercussions of the health crisis of COVID-19 outbreak have been felt for a prolonged period of time. 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. Coupled with component shortages, the recovery of our customers have been affected and this is evidenced by the constrained year on year growth in sales of the Asia segment and it needs time returning to pre-pandemic level. While the smartphone market underwent the gradual revival from COVID-19 in early 2021 and China's recovery from COVID-19, the production efficiencies of China operations have improved significantly and idle costs reduced and this contributed a lot to better yields and throughput and margin performance. There is also no need to spend on safety supplies. But the outbreak of the COVID-19 second wave in the second quarter heavily swept across several regions of the world in which the Group has operations, especially in Vietnam and India which implemented different levels of local lockdowns, precautionary and quarantine measures as well as travel restrictions. These measures have impacted the Group's India and Vietnam manufacturing activities as well as a slowdown in overall local demand and commercial activities for some time, all of which have contributed to a pressure on the recovery of the Group's sales, revenue, asset utilisation and contribution margin in these countries. It also has had a profound impact on the online and offline sales of phones of our customers in these countries. With the effort of the local teams in India and Vietnam, they succeeded to minimize the impact of the COVID-19 resurgences on operations and the situation stabilized gradually in June. Adverse second/future wave of new coronavirus infections impaired the handset industry, with rising demand uncertainty in terms of customer confidence in spending, might result in a negative impact of smartphone growth in 2021 in those regions. But as a whole, it needs time for demand to return to pre-pandemic level. With better and growing vaccination rate in different countries, the recovery of our customers can be accelerated.

(iv) 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 in 2020 and, accordingly, has continued to rightsize/restructure underperforming part(s) of its businesses in second half of 2021, thereby incurring inevitable restructuring costs and expenses and there is need to pay severance pay and to write off some inventories and write down some obsolete/idle assets. But the 2021 impact reduced as the Group has already aggressively eliminated/wrote down/impaired a lot of idle, obsolete, redundant and surplus assets in second half of 2020 and asset utilization improved in 2021. Also a lot of people not needed have been redundant in second half of 2020.

The strategy of the Group is to maintain the gravity of operations and devote resources in 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 good manner. After two decades of global economic prosperity, the trend seems to be transiting to de-globalization. One observation is the Tariff War between U.S. and China from 2018. The other observation is the border conflicting between India and China in 2020. The COVID-19 pandemic also catalyzed such transition. 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. India's mobile manufacturing began in mid-2000 with the entry of Nokia and witnessed impressive growth between 2008 to 2012 when the country produced 155 million handsets and exported 105 million. However, by 2014 the production dipped to 58 million units due to various factors. While the domestic market kept growing at a very rapid pace, majority of the demand was met via import of Completely Built Units (CBU)/ Finished Goods (FG) by both Indian and Foreign OEMs. This rise in India's Electronics imports (mainly from mobile phones) contributed significantly to Current Account Deficit. To encourage companies to manufacture in India, India imposed high import duties on CBU and this duty differential between imports and local production offered significant cost advantage to OEMs having local production in India.

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 and one of these customers experienced exponential growth in the Indian market. With the lingering of trade war during Trump's administration, customers started 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 33% 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 has been putting effort to enlarge the capacity and capability and casing manufacturing and R&D capability in India. There are a couple of reasons for doing so. First, 2020 trade tensions between U.S. and China resulted in the shifting of manufacturing demand from China to other countries. Second, China faces 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. Third, no one can ignore the huge population of India. The size implies the opportunities. From the demand side, 1.3 billion population is a large consuming market. 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. Indian government's "Make in India" program has sped up India into 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 and making new capital expenditures on plant and machinery and equipment and also building up R&D center which will open in the fourth quarter this year. 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 at the appropriate time like carrying out rightsizing activities to underperforming parts of businesses.

Because the situation is still unstable in first half of 2021, 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. But as China is the first country to recover from the COVID-19, the Group is optimistic of future development. An analyst expected China is to benefit from the ongoing supply chain disruptions as companies are more likely to shift their production back to the mainland, with foreseeable export growth of 20% to 30% in China continuing into 2022. As many nations continued to fight against the pandemic, vaccination rate surged subsequently, which ignites a strong economic resurgence in nations, China in particular. The strong economic upturn of China will notably contribute to the growth in economic and propel consumer spending as business resumed operations and people gradually returned to normal life.

Europe Segment

The recorded revenue of Europe segment in the current period was US$280 million when compared with the recorded revenue of US$212 million for the same period last year and the revenue of Europe segment increased in the current period. Just like Asia segment, the recovery is restricted by resistant COVID-19 challenges. Also HMD faces keen competitions in different markets. The Group has taken measures to reduce the gross loss margin of Nokia-branded smartphone manufacturing in the second half of 2019 and now the Group basically only manufactures Nokia-branded feature phones. The recorded earning of this segment in the current period was US$8 million, when compared with the recorded earning of US$6 million for the same period last year and there was year-on-year increase. The shortage and price hike and long delivery lead time of some key components triggered by COVID-19 outbreak further affected HMD and it cannot raise selling prices readily to accommodate rising costs so as maintain price competitiveness. This in turn affected the Group's gross margin.

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

America Segment

For the America segment, core businesses include sales of phones to a U.S. based Internet customer and provision of services including reverse logistics, repair and refurbishment of smartphone 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$206 million when compared with the recorded revenue of US$105 million for the same period last year and the year-on-year increase came from the increase of sales to a U.S. based Internet customer. The recorded earnings for the current period were US$14 million when compared with the recorded earnings of US$8 million for the same period last year.

(i) For the U.S. based Internet customer, it wants to offer better, differentiated service by combining software and hardware. So they will push more hardware in coming years starting from 2021. First half of 2021 is better than last year as this generation of product is better fitted into customer expectation in terms of performance and price range. In addition, this customer is beneficial by loyal Android users who choose to buy their phones. To curb component shortage, the Group placed longer order to secure supply and this customer plays a very important role to secure supply as well. But of course, like other customers, the fierce competition continues to squeeze the margin.

(ii) For reverse logistics and repair and refurbishment business, in 2020, all smartphone retail stores and retail service channels faced shutdowns or closures, and the return service activities slowed down tremendously. New Product Introduction (NPI) schedule had been pushing out due to business traveling restriction 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. The operation in the States and Mexico has gradually recovered to normal this year, thanks to the successful vaccination roll-out in the States. Our Mexican businesses are mainly coming from U.S. market and the demand from both repair business and manufacturing business has been gradually recovering as expected. Even Mexico was still under COVID-19 alert but there is no impact to its operation there since first quarter of 2021 and massive vaccination has started to roll out from May till third quarter in Mexico. But the business impact of COVID-19 to those sites will be perpetual, even after the pandemic. It is due to the change of consumer behavior in U.S. market during the COVID-19. It induced the physical retail chain store shut down and product return volume from retail store dropped dramatically. It also drives OEM to change their product design and repair policy which causes the previous smartphone refurbish business model to change. Margin is still subject to huge pressure as we have to offer aggressive pricing in order to solicit new businesses. Also the material shortage causes production efficiency challenges and operation cost increase. Sales revenue target can be achieved if supply chain is not getting worse, but the profit target will be the challenge due to unexpected increase in operation cost, freight, material, etc. The Group is optimistic on recovery from the pandemic starting from third quarter, and Mexico site will take advantage from the on-going "Trade War" for long term and keep growing when customers complying USMCA (United States-Mexico-Canada Agreement), especially in the automotive industry and Tariff-impact products. But the worldwide semiconductor shortage not only has caused some operation shut down at both sites in second quarter and will remain as the major risk to both sites all the way through 2022.

Due to the increase of sales to the U.S. based Internet company, the performance of the America segment had a positive impact on the Group's sales performance in first half this year but margin is under pressure. 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 and continue to exist in 2021 due to the COVID-19 pandemic, the restriction imposed by the U.S. to certain Chinese mobile brand company, a lack of components 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 in this announcement, 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 smartphone 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 smartphone centric mechanical vendors were forced to adjust their product mix. As a skeleton of 5G smartphone, 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. Performance of our casing peers in 2020 are listed as follows:

i. Peer 1 is a Hong Kong listed company whose core businesses are precision materials, electrical drives and acoustics and haptics optical applications. Its revenue increased by 20.6% year-over-year and gross profit margin and net profit margin increased by 8% and 11% respectively year-over-year in the first quarter of 2021. As one of its customers was restricted by the U.S. sanction, its shipments of precision materials declined in the quarter. Yet, the negative impacts were offset by the outstanding performance from other businesses, for instance, the sales from non-Android smartphone acoustic parts made a double-digit year-over-year growth. Also, as a result of the optimization of production, the gross profit from the acoustic and optics businesses has apparently improved, boosting the overall margin.

ii. Peer 2 is a PRC listed company whose shares are listed in the Shenzhen Stock Exchange and its core business also includes consumer electronics precision structural parts, electronic connectors and Components. The company aims to decline the proportion of revenue from domestic customers and mobile phone products to reduce the dependence on single customer and region. Following the objective, the company has acquired a new international customer, whose revenue contribution accounts for 40% of its total oversea revenue currently and expects to be doubled in 2021. Moreover, the company also aggressively developed the energy vehicles business with partnership with the leading EV battery solution provider to manufacture the battery structural parts. The expansion strategy led to the sales growing fast, while the high-margin international customer also pulled the profit margin up. In the first quarter of 2021, the revenue rose by 28.1% year-over-year, while the gross margin made a 8.1% growth year-over-year. In fact, since the company expanded the non-mobile product business, the gross margin has improved, with 30.2% and 30.3% in the first quarter of 2021 and the second half of 2020 respectively, compared to 25.7% in the first half of 2020.

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. Its glastic casing market share of Android mobile phones has reached about 40–50%, and it might keep growing and expects the glastic shipments would account for over 80% of total shipments in 2021. Also, the ASP (average selling price) of some glastic casing products is twice as high as the ASP of plastic casing, which means the momentum will drive the overall margin up as well. Besides, benefiting from one of the international customer's new product launches at the end of the last year, it brought a substantial revenue contribution in the first quarter of 2021, while the company expects to involve in the customer's other product pipeline to inject more sales in the near future. In the first quarter of 2021, the revenue increased by 37.6% compared to the last same quarter.

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 business listed in the 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 the first quarter of 2021 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 reported a significant 108% revenue increase in the first quarter of 2021, while the gross profit margin and net profit margin went down 5.1% and 0.4% year-over-year respectively. Its revenue from EMS/ODM and components still accounts for a large portion of total sales. In the first quarter, the booming growth revenue was driven by the considerable contribution of the new product shipments to an American, non-Android smartphone customer. Yet, the change in product portfolio adversely impacted this company's gross profit margin with low-margin assembly business taking up 80% of earnings and the high-margin medical mask declining. Nevertheless, the company is expanding into more diversified markets such as IoT products including drones, robot vacuums, gaming consoles and e-cigarette, which will ultimately give an impetus to its earnings growth. Meanwhile, the company is exploring more non-smartphone business opportunity and shifting its focus to the emerging Automotive Intelligent System business.

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 its businesses. Its net sales uplifted by 14.3% in the first quarter of 2021, while the net income modestly went up 1.4% year-over-year. Profit growth was bolstered by better product mix (cloud products and enterprise IT spending) but tempered slightly by new ramps in chronic care-related products. The company is exploring new non-smartphone business opportunities in high-end durable goods and medical products. Moreover, its Automotive sector is undergoing significant transformation, new programs in auto connectivity ramped accordingly.

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 revenue in the first quarter ascended 15.2% year-over-year, while net profit margin saw a 2% year-over-year increase. High revenue growth stemmed from the robust demand in its storage semiconductor manufacturing business unit as well as packaging and testing business unit, which considerably offseted the massive loss in consumer electronics. Moreover, the demand for medical respirator products maintained strong growth momentum, and the company intends to expand its investment in high-margin EMS businesses such as home medical products and smart electricity solutions.

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 company posted a 27% year-over-year increase in revenue, and a 2.6% year-over-year growth in net profit margin. Due to the prolonged impact of U.S. sanctions, the revenue from one of top customers fell dramatically to 12% from 42% in 2020. In order to offset the headwinds of losing share from this customer, the company make every effort to seek other business opportunity, shifting its focus to non-mobile device business including Smart Wearable Device and Tablet, moving forward on the expansion into the Automotive Electronics segment. In the meantime, the company captured the opportunities to enlarge its manufacturing capacities in India, securing bulk orders from the other china customer subsequently, its revenue contribution accounting for 33% in the first quarter of 2021. In addition, the growth in gross profit margin was primarily driven by the enhancement of production capacities that partially compensated the escalating portion of Buy & Sell business model from 15% to 25% in the first quarter of 2021.

Apart from the peers mentioned above, a precision parts manufacturer who was not covered in our peers had to jointly established an assembly factory with one of our major China customers in Turkey at the beginning of 2021. The peer is a Shenzhen listed company having several business segments, including precise components, structural parts, charger and materials etc. The peer has restructured the business since 2019. Recently, in order to provide a vertical integration solution from materials, precision parts, modules, assembly to packaging and testing, this particular peer aggressively invested in the assembly business not only in China, but also Vietnam and Europe. In the first quarter of 2021, benefiting from the increased revenue of precise components and structural parts, the year-over-year revenue growth rate was 19.5%. In addition, several restructured businesses have reached the break-even points at the end of the last year, hence the overall gross profit margin grew slightly by 1.6% year-over-year in the first quarter. Considering the increased competitive situation, we will keep monitoring its movements.

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 developed other sales engines to respond to the 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 30 June 2021 is less than 5% of the Group's total assets as at 30 June 2021, 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/AI 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 smartphone 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.

In 2020, the transformation continued with the target of transitioning from a purely hardware business to a combined hardware and services company. HMD invested in building its own in-house software development. As part of that change, it acquired the assets of a Finnish mobile enterprise and cybersecurity software company, Valona Labs. It is the foundation for HMD's new Centre of Excellence in Tampere, Finland, which specializes in software, security related intellectual property and services. In 2020, the company entered a new service category with the launch of its HMD Connect global data roaming service. It offers hassle-free, secure, and affordable roaming for consumers across the world.

HMD drove transformation its enterprise business. In addition to offering smartphones for enterprise customers, the company now offers value-added services, one-year extended warranty plan and Nokia phone insurance. The HMD Connect Pro global data roaming service for enterprises enables easier fleet management and increased security with centralised SIM management. In addition, it has securely routed real-time usage information, live diagnostics, and troubleshooting. Service is available in 600 networks across 160 countries.

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. 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 30 June 2021. 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

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. Until June 2021, the company has reached several investors and made agreements with part of them, the transaction is expected to close soon. Based on the recent performance 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 30 June 2021. The Group took corresponding adjustment to the fair value change in this investment. As at 30 June 2021, the Group's investment represented 0.88% of CloudMinds on a fully-diluted basis.

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. Thanks to the trade-war between China and U.S., its new SoC series wins many customers and will contribute substantial revenue from October 2021. The new AI SoC already launched and is expected to enter market at the first quarter of 2022. Thus, 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 30 June 2021, the Group holds 2.33% 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 Redmond, 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.

Back in 2015, the Group has made several investments with a total of EUR2.5 million (including EUR1 million in NRE and EUR1.5 million in cash) in Octonion, a company providing sport smart trackers and wearables monitoring athletes' speed, acceleration, distance and other personal data. As Octonion's business performance was worsen, the Group had fully impaired this investment in 2016. At the end of 2020, Octonion started to transform the original business to real-time industrial machine health evaluation, leveraged by its edge-computing AI algorithm. Despite all the efforts made, Octonion unfortunately notified that it failed to secure the company and judged to enter into insolvency proceedings on 14 June 2021.

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 smartphone company led by a group of experienced experts in the mobile industry.

As at 30 June 2021, the fair value of the Group's equity investments designated as FVTOCI was US$210 million, which represented 3.69% 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. Also, promoted by the awareness of environmental protection, more and more governments and auto companies announced their plans for minimizing new gas-powered car manufacturing within 5 to 10 years, which expedites the development of new energy vehicles equipped with new E/E and cutting-edge software. 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. In fact, the Group has reached a cooperation agreement with a prestigious private industrial investment fund. The Group will put in its idle assets and design and manufacturing experiences, while the fund will provide financial support into an accelerator focusing on the medical fields in Beijing. 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 has continued to close 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

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 respectively described in page 69 of the Company's 2020 interim report as issued and published on 7 September 2020 and page 42 of the Company's 2020 annual report as issued and published on 20

April 2021. The Group's PRC subsidiaries have devised and implemented appropriate corporate initiatives and actions after reviewing 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 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 43 of the Company's 2020 annual report as issued and published on 20 April 2021. 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.

The Ministry of Finance of the PRC and the State Administration of Taxation of the PRC also introduced certain other tax cut measures applicable to manufacturing companies. For example, according to the Announcement on Further Improvements to the Policy of Weighted Pre-tax Deduction for Research and Development Expenses which was issued on 31 March 2021 and became effective retroactively on 1 January 2021, for the research and development (R&D) costs incurred by a manufacturing enterprise in its R&D activities, if no intangible asset is formed, an additional 100% of the actually incurred amount may be deducted before tax; if intangible assets are formed, 200% of the costs of the intangible assets is allowed for amortisation before tax. In addition, according to the Announcement on Clarifying the Period-end Uncredited VAT Refund Policy for Advanced Manufacturing Industries, which was issued on 23 April 2021 and took effect retroactively on 1 April 2021, a qualified taxpayer in an advanced manufacturing industry may apply to the competent tax authorities for refund of incremental uncredited VAT in May 2021 and thereafter. As the "super deduction" before income tax for R&D expenses is increased from 175% to 200%, this could significantly reduce the taxable income and income tax liabilities of the Group's PRC subsidiaries involved in R&D activities, thereby reducing their cash burden. In addition, the initiative to refund by cash of any qualified incremental uncredited VAT for qualified companies could enable the Group's PRC subsidiaries to get cash refund of any unutilised VAT credits, thereby reducing their cash-occupied costs.

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 43 of the Company's 2020 annual report as issued and published on 20 April 2021. 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.

India

With effect from 1 July 2021, in relation to purchase of goods from a resident seller, the specified buyer (i.e. a person whose total sales, gross receipts or turnover exceeds INR100 million in a financial year) has to withhold tax (Tax Deducted at Source, TDS) at the rate of 0.1%. It will be applicable to a purchase transaction exceeding INR5 million in a financial year. As per this new requirement, the Indian subsidiaries of the Group are obligated to monitor purchases from each resident supplier as it is necessary to withhold TDS from such resident supplier when the threshold is met. Furthermore, the Indian subsidiaries of the Group will do the same when dealing with local specified customers and when the sales to the specific customer exceed INR5 million. In that case, cash related to the TDS as withheld by customers from the Group's Indian subsidiaries will be occupied even at a later stage when those TDS can be offset against their other income tax liabilities.

The Finance Act 2021 has clarified that the due date for the purposes of Section 36(1)(va) of the Income Tax Act 1961 governing contributions to the provident fund by the employer on behalf of the employee is always deemed to have been the date prescribed under the relevant act and not the due date of filing of the income tax return. Any contributions made beyond the prescribed date will not be eligible to be claimed as an expenditure when filing the income tax return. It is emphasized that contributions to provident funds for employees by the Group's Indian subsidiaries should be paid in a timely manner; otherwise, those expenses will not be allowed as a deduction while filing the income tax return. Accordingly, the Group's Indian subsidiaries should continue to monitor and ensure timely deposit of their employee's contributions to provident funds to avoid potential tax losses.

In relation to the Production Linked Incentive (PLI) Scheme for Large Scale Electronics Manufacturing, please refer to the background and previous developments as described in page 44 of the Company's 2020 annual report as issued and published on 20 April 2021. The Ministry of Electronics and Information Technology has expanded the scope of the PLI Scheme to laptops, tablets, all-in-one personal computers and servers and has extended an incentive of between 1% to 4% on net incremental sales of goods manufactured in India for a period of four years to eligible companies. To tap the potential under the PLI Scheme as so expanded, a new Indian Group company was incorporated with a similar objective. One of the Group's Indian subsidiaries had submitted an application under the PLI Scheme and received approval from the relevant authority. This subsidiary is entitled to claim incentives from the Indian government once all the conditions are satisfied. This could enhance its competitiveness even though all the incentives may be passed through to its customers.

Vietnam

Please refer to page 45 of the Company's 2020 annual report as issued and published on 20 April 2021 for the Vietnamese governmental policies to support enterprises during the economic downturn arising from the COVID-19 pandemic. Due to the recent surge of COVID-19 cases in Vietnam in June 2021, the Vietnamese government has issued several policies to support enterprises which are suffering from the restrictive measures imposed by the government. The government has reduced 30 types of fees and charges for the period from 1 July 2021 to 31 December 2021, including (without limitation) customs fees (reduced to ninety percent of the applicable fee) and intellectual property royalty fees (reduced to fifty percent of the applicable fee). Employers are also entitled to reduce payments in relation to social insurance contributions to the occupational accident and occupational health insurance funds to zero percent for 12 months from 1 July 2021 to 30 June 2022. Employers who have experienced a reduction of 15% of their employees (compared to those as of April 2021) as a result of the COVID-19 pandemic are entitled to suspend payments to the retirement and survivorship fund for 6 months from the month they make requests for such suspension (every request must be made no later than 30 June 2022). In view of the foregoing, the Vietnamese governmental policies have worked for the benefit of the Group's Vietnamese subsidiary, particularly when applicable fees, charges and other payments have been reduced, thereby reducing such subsidiary's expenses and also working capital pressure.

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

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

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

In relation to the Group's compliance with the relevant laws and regulations that have a significant impact on the Group in respect of environmental, social and governance aspects, please refer to the Company's separate 2020 environmental, social and governance report as issued and published on 20 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 30 June 2021, the Group had a cash balance of US$1,742 million (31 December 2020: US$1,779 million). Free cash flow, representing the net cash used in operating activities of US$18 million (31 December 2020: net cash used in operating activities of US$89 million) minus capital expenditure of US$54 million (31 December 2020: US$102 million), was US$72 million outflows (31 December 2020: US$191 million outflows). 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$974 million (31 December 2020: US$929 million) over total assets of US$5,703 million (31 December 2020: US$6,032 million), was 17.08% (31 December 2020: 15.40%). All of the external borrowings were denominated in USD and INR (31 December 2020: 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 0.55% to 5.90% (31 December 2020: fixed rate ranging from 0.72% to 5.90%) per annum with an original maturity of one to three months (31 December 2020: one to two months).

As at 30 June 2021, 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$18 million.

Net cash used in investing activities during the current period was US$50 million, of which, mainly, US$54 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$0.6 million represented acquisition of equity instruments at fair value through other comprehensive income, US$0.2 million represented placement of bank deposits, US$1 million represented dividends received from equity instruments at fair value through other comprehensive income, and US$3 million represented proceeds from disposal of property, plant and equipment.

Net cash from financing activities during the current period was US$27 million, primarily due to net increase in bank borrowings of US$45 million, payments on repurchase of ordinary shares of US$12 million, interest paid on bank borrowings of US$3 million, repayment of lease liabilities of US$2 million and interest paid on lease liabilities of US$0.5 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 three months) denominated in foreign currencies. Also, the Group, from time to time, utilised a variety of forward foreign exchange contracts to hedge its exposure to foreign exchange risks. 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 has been kept managing down since 2020 into 2021.

Capital Commitments

As at 30 June 2021, the capital commitments of the Group were US$16.6 million (31 December 2020: US$67.7 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 30 June 2021 and 31 December 2020.

Contingent Liability

There was no material contingent liability for the Group as at 30 June 2021 and 31 December 2020.

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, the National Bureau of Statistics (NBS) released data reporting the average wage of urban workers continued to increase in China. Although 2020 wages grew at a slightly slower rate, the wages still see an upward trend, as the increasingly skilled workforce in the high-value industries pulled up the wages. According to the data, the average annual income of employees in urban non-private units stood at RMB97,379 in 2020, which represents a real growth of 5.2% year-over-year, while for employees in urban private units

was RMB57,727 in 2020, up 5.3%. Besides, China has announced recently that it will allow couples to have up to three children, after census data showed a decline in birth rates. Xinhua News, the China news agency, said following a politburo meeting chaired by President Xi Jinping, "the policy will come with supportive measures, which will be conducive to improving our country's population structure, fulfilling the country's strategy of actively coping with an ageing population". This verifies indirectly that wages rise continually under the sluggish fertility rate and labor supply shortage. That's one of the reasons that many foreign-invested enterprises have chosen to move to the emerging countries such as India or Vietnam where the Group has already had its footprints on. In above Asia segment section, there are detailed explanations why the Group made the strategic decision to expand in India and enhance its competence. It is worthy to note that although there is an increase in capacity in China to reflect the Group's customer's demand, it is not contradicted with the Group's overall strategy to mitigate the risk of reliance on a single region.

Regarding the outlook of the Group's business and performance, the global general economy, development of COVID-19 and vaccination roll-out rate, handset market, global supply chain, component shortage, geo-economic risks, government incentives and support, consumer behaviors and propensity to consume, product, technology change and OEM/ODM industry and competition landscape, need to be considered. Since 2017, global smartphone shipments have already declined for four consecutive years, with -3.4% CAGR from 2016 to 2020, 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 in 2020. However, according to IDC data, the smartphone market will see an impressive rebound in 2021. Following the recovery in consumer demand and the ramp-up of applying 5G, smartphone shipments are forecast to reach 1.38 billion units in 2021, an increase of 7.7% over 2020. This trend is expected to continue into 2022, when year-over-year growth will be 3.8% with shipments totaling 1.43 billion. Though the semiconductor shortage remains a concern, the impact on smartphones has been less than in other consumer electronics like automotive, PC, etc. Looking ahead to the later years, IDC expects low single-digit growth to continue through 2025 with a five-year CAGR of 3.7%. Especially 5G smartphones, there's a strong supply-side push toward 5G devices, driving the price to drop. It is a motivation to urge consumers to change their phones due to such affordable prices. IDC also expects ASPs for 5G Android devices to drop 12% year-over-year in 2021 and then below US$400 in 2022. Regarding OEM/ODM industry situations, due to the saturated smartphone market, restricted demand caused by the severe COVID-19 pandemic, restrictions imposed on one of the major mobile phone brand companies, price increase of components and labor cost competition among Chinese vendors will become fiercer. The oversupply in Chinese OEMs may impact future demands of the products and services to be provided by the Group. Moreover, because a major Chinese giant has been forced to withdraw from the market resulting from the unrelieved sanction imposed by U.S. government, the OEMs who used to provide services to this brand company are fighting head to head to other OEMs trying to maximize the use of already surplus manufacturing capacity. At the same time, the Group's customers are striving for greater market share from the above-mentioned brand company 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 extreme

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 report published by World Bank on 8 June 2021, the global economy is set to uplift by 5.6% in 2021 after the greatest economic depression caused by COVID-19. The gradual recovery of global economic driven by increasing vaccination rates, allowing businesses to gradually restore operation and return to pre-pandemic level, while many countries were being hampered by slow vaccination deployment and the sustained outbreak of COVID-19 pandemic. Due to continued spike in COVID-19 cases and vaccine supply constraint, Asia GDP growth (excluding China) has been adjusted to 4% from 4.4% forecast in March, according to a recent date released by World Bank on 15 July 2021. COVID-19 continues to have a profound impact on the local smartphone production volume and sales in Asia regions. However, as many nations continued to fight against the pandemic, vaccination rate surged subsequently, which ignites a strong economic resurgence in some nations, U.S. and China particularly. With the speedy rollout of coronavirus vaccines in the United States, more than a third of the total U.S. population is now fully vaccinated against COVID-19, according to data collected by the U.S. Centers for Disease Control and Prevention on 7 June 2021. The robust revival of U.S. economic was bolstered by the rapid rollout of vaccines and substantial fiscal stimulus package of US$1.9 trillion, Gross Domestic Product (GDP) in the U.S. is expected to experience a strong upswing of 6.8% in 2021 after profound pandemic-induced economic downturn, according to data collected by World Bank on 8 June 2021. In contrast, China's economic is forecasted to record a robust momentum growth of 8.5%, according to World Bank on 8 June 2021. China is estimated 80% out of its 1.4 billion population will get vaccinated in 2021, said by Chinese National Health Commission on 3 June 2021. The strong economic upturn of U.S. and China will notably contribute to the growth in global economic and propel consumer spending as business resumed operations and people gradually returned to normal life.

The prolonged supply crunch has been a hindrance on the growth of electronics marketplace, trickling down across the supply chain from the consumer electronic segment including smartphones, personal computers and even home appliances to the automotive segment, leading to price surges in every segment. In addition, escalating prices for copper and other manufacturing metals have spurred the bump in pricing for electromechanical devices and passive components. Some common electronic components such as ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. continue to be subject to compressed supplies, with rising prices and extended order lead times persist into 2022. Furthermore, a report released by Techspot on 24 May 2021 revealed that more than 30 global chip manufacturers have announced a 10% to 30% price bump in their product from the beginning of second quarter of 2021, and those chipmakers are projected to continue raising quotes in the third quarter of 2021 due to tightened manufacturing capacity. As price of electronics components continue to climb, downstream markets such as personal computers and smartphones have witnessed higher costs, which will inevitably be passed on to customers. According to a recent report published by the Wall Street Journal on 19 July 2021, smartphone saw a spike of 5% in the average wholesale price from April to June. Moreover, one of the group major customers has raised prices on specific smartphone models to reflect higher component costs driven by supply shortages and increasing raw material costs. However, the crunch in chipset supply is expected to "see a material improvement by the end of 2021 due to

planned capacity builds and multi-sourcing initiatives." said by Cristiano Amon, President and Chief Executive Officer-Elect during Qualcomm quarterly earnings call on 28 April 2021. While several industries have taken proactive steps to mitigate ongoing supply strain, and global semiconductors manufactures have actively invested in new foundries and factories expansion to ramp up production capacities, however, the dearth of supply will not be alleviated in the short term. "It could take years to address shortfalls in foundry capacity, substrates, and components", said Intel's CEO on 31 May 2021.

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 587 million in 2021 to 1,123 million in 2025 at a CAGR of 17.64%. On the other hand, according to a report of "Five Ways to a Better 5G" published by Ericsson on May 2021, highlighted consumer intention to upgrade to 5G smartphone escalating during COVID-19 pandemic, the statistics indicated that at least 300 million smartphone users are set to upgrade to 5G phones by 2021. The report also pointed out that 22% of global 5G smartphone owners are still on a 4G service, while other 4% of respondents claimed they use a 5G subscription on a 4G smartphone. As the ongoing COVID-19 outbreak, consumers moved their daily activities indoors such as work from home and remote learning, 5G indoor coverage became more important than other 5G feature in driving overall consumer satisfaction. However, as opposed to 5G network, consumers inclined to use 4G networks as 5G networks have relatively poor indoor coverage. It is certain that customer demand for 5G smartphones will accelerate once the quality of indoor coverage is improved. According to IDC statistics, among the total global 5G shipments shipped since the first 5G model released in 2019 to the first quarter of 2021, 62% of 5G mobile phones were shipped into China. As of June 2021, data from China's three major carriers unveiled that the number of 5G subscribers in China reached 493 million, with the highest 5G penetration rate at 30.46% and the largest number of 5G users in the world. Nevertheless, according to CAICT data released in July 2021, the cumulative number of 5G phone shipments was 304 million, which means that nearly 189 million users who have subscribed 5G plans still use 4G handsets. According to Ericsson's research in May 2021, 8% of Chinese respondents have 5G plans but use 4G phones, and the other 33% use a 5G phone but have 4G subscriptions, suggesting that most consumers have a poor experience with 5G due to Inadequate 5G base station in China. Yet, 600 thousand new 5G base stations are expected to be built in China by 2021, reaching a cumulative total of 1.31 million, which is projected to largely improve 5G coverage and further stimulate demand for 5G handsets. Based on a research report by Goldman Sachs released on 7 June 2021, in spite of the slowdown in China's smartphone shipments in April 2021, the shipment of 5G smartphone are expected to generate momentum in the second half of 2021 given the continuing release of more cost-effective 5G mobile phones and flagship models with the latest features. In addition, 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. Overall, a study conducted by Qualcomm on 2 November 2020, unveiled that the full economic effects of 5G are likely to be achieved by 2035 on a global scale, bolstering a breadth of industries and potentially driving up to US$3.8 trillion in economic output and supporting 22.8 million jobs.

Echoing the IDC's report, the leading chipmaker — Qualcomm's financial results, showed its chips sales still achieved double-digit growth, propelled by 57% and 114% year-over-year growth in handset chips and RF front-end chips in the second quarter of 2021 respectively. In spite of the supply constraints, the sales still recorded a strong growth rate, especially RF front-end chips which are an essential part of 5G, seeing 5G devices demands went up as new handsets released and consumer purchasing power increased. Refer to CNBC, Qualcomm CEO Cristiano Amon indicated that the company has prioritized the growth of the company's RF front-end business, which gives the company an important component to sell to handset makers who may want to develop their own 5G modems. Besides, according to Qualcomm's latest earnings call, the management team mentioned a supply shortage across a broad set of business continually as well as the reduction in orders from the large handset OEM restricted by the sanctions, however, they took it as an opportunity to optimize their product mix and redirect the capacity to the strong margin profiles. Its non-GAAP net income in the second quarter of 2021 grew up by 124% year-over-year. Qualcomm predicts the supply environment would be more favorable at the end of 2021 and even toward 2022. The company made the handset shipments forecast stay the same, expecting high-single-digit growth in phones shipped and 450 million to 550 million 5G handsets in 2021.

In addition to supply constraints, 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. ex-President Trump introduced tariffs on Chinese goods and listed several Chinese companies into the blacklist to block their resources and supports. Since the elected U.S. president Joe Biden took office, the attitude toward China has changed but remain tough. On 21 May 2021, the U.S. Commerce Department officially announced that the government will keep Chinese telecom giant Huawei on a trade blacklist. "Huawei remains on the entities list, and there's no reason to think that they'll be coming off." Commerce Secretary Gina Raimondo said. All the restrictions proposed and carried out by Biden administration indicates the tense relationship between two giant entities, U.S. and China would not relieve soon. However, the Biden's attitude and policies are different partly with ex-President Trump. Biden tends to announce sanctions against Chinese companies based on sufficient evidence, while Trump government imposed strict restrictions even if they could not find solid evidence that the companies undermine the security or democratic values of the United States. Although Huawei hasn't been removed from the entity list, it kept putting efforts on develop new handsets and operating system. On 3 June 2021, Huawei launched its Harmony operating system for smartphone, meaning the company will no longer rely on Android platform. On the other side, in the product event, the CEO of Huawei's Consumer Business Group only released a teaser for the flagship P50 phone and delayed its spring launch "for reasons that everyone is aware of," he said. It obviously indicates the customer still suffered from certain obstructions on the way to develop new phones. However, the company has took advantage of its software, hardware and integration abilities to expand into automotive industries for making up the decline in revenue. Recently Huawei launched cutting-edge automated driving system, vehicle sensors, automotive operating system and other related applications, attracted lots of attentions from customers. We anticipate the revenue contribution from automotive would grow fast in the near future. As for the spin-off brand, Honor, it has yet to regain the substantial market shares hampered by the supply chain deals, according to a Canalyst report. But the sub-brand has got rid of the U.S. restriction. On 16 June 2021, Honor officially announced its Honor 50

series with Google services and powered by a Qualcomm Snapdragon 778G processor. "Consumers will be able to experience Honor smartphones and tablets equipped with GMS." the company said. The CEO also confirmed the devices, Magic 3, will debut in the third quarter of 2021 and be embedded the top-end Snapdragon 888 processor. That's a huge progress for Honor that could access the components and software system to make the way to develop new devices smoother.

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. Amid further escalation of the trade war, many companies have increasingly hedged against risks of tariffs by establishing operations and markets outside of China for their overseas business. Indeed, one of the groups' main competitors has embarked on oversea expansions in India and Vietnam, the company seized the opportunities to enlarge its manufacturing capacities in India in the third quarter of 2020, securing bulk orders from the group main customers accordingly. Another key competitor has aggressively expanded in the deployment of oversea factories, especially in Vietnam and Europe. The company has jointly established an assembly factory with one of our major China customers in Turkey at the beginning of 2021. The key markets for Chinese brands expansion so far are India, South-East Asia, Europe, Middle East and Africa. On the other hand, 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.

However, with the onset of the second wave of COVID-19, several regions around the globe were hit severely, especially in India and Southeast Asia, where the coronavirus cases rose rapidly, causing factories to run below capacity or even forcing temporary closures. The second COVID-19 outbreak largely derailed the supply chain in India and Vietnam, which China saw it as a great opportunity for the manufacturing supply chain return to China, according to Zhang Zhiwei, chief economist at Pinpoint Asset Management, said on 24 May 2021. China is forecasted to benefit from the ongoing supply chain disruptions in those two countries as companies are more likely to shift their production back to the mainland, with foreseeable export growth of 20% to 30% in China continuing into 2022, Zhang Zhiwei said.

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. According to a statement on Samsung's official website, 5G devices tend to consume more battery than 4G phones because of the current limitation of 5G signal coverage. Therefore, 5G phones have to constantly search for a strong signal, switch between 4G and 5G networks and spend much time hunting for a good connection, which result in a faster battery consumption. As a consequence, battery life of 5G phone is considered one of the most common pain points for consumers. To address 5G battery life issue, many smartphone manufactures has begun to optimised phone specifications and largely improved battery to a high capacity of 5000mAh with upgraded fast charging feature to attract customers. With enhanced specifications and differentiating features, higher display refresh rates, larger memory capacity and faster processors speed will be on the radar. 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$376 in 2021 and US$326 in 2025, with a significant decrease at a CAGR of 3.5% for 2021 to 2025, according to data collected by IDC on 26 May 2021.

Apart from product feature, online privacy issues including personal data leakage or improper exploitation by third parties have been a major concern for the majorities, with 57% of users expressing their concern about privacy online, based on a survey conducted by Ericsson on 6 May 2021. With increasing privacy awareness, tech giants such as Apple and Google have taken multiple initiatives to cope with privacy concern while protecting user data from being unwittingly collected by third parties. Apple has made a huge step forward in privacy protection by turning off IDFA, the so-called Identifier for advertisers, by default in IOS version 14.5, which was released on 26 April 2021. Under this version, advertisers will not have access to user data unless the user give them permission to track it. On top of that, Apple highlighted its upgrades to privacy protection at Worldwide Developers Conference on 7 June 2021. One major privacy upgrade that has drew attention was the new Privacy Relay feature, an internet privacy service embedded in iCloud designed to secure that all traffic and route leaving a user's device are fully encrypted. On the other hand, Google also announced a host of privacy-focused features across its diverse products at its I/O conference on 18 May 2021 and introduced a major software update to Android 12 that offers brand-new privacy features, including a new privacy dashboard. It is no doubt that privacy and online security are of paramount importance these days as consumers increasingly shift their daily activities to online platform and spend more than 50% of their time on the smartphone during the COVID-19 pandemic, according to a study conducted by Ericsson on 6 May 2021.

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. Besides, the Group will keep developing higher margin businesses inclusive of IoT devices, 5G applications and automotive software and hardware. Following the Hon Hai Technology Group objective, the Group's future business plan would focus on margin escalation instead of revenue growth and continually monitor the market competition conditions to respond accordingly.

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 (like in India) 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. To keep maintaining competitive edge against industry rivals, the Group's design centers are undergoing the optimization practices on product development process to achieve increased agility; furthermore, to meet the tremendous pace of technology change and customers' need. The design centers are proactively establishing product portfolio and use it as a marketing tool to approach potential clients; this approach can increase the product development efficiency. The product development cost can be shared by various clients; hence, the implementation for this approach can enhance the competency. To aggressively keep abreast on the latest industry trend, employees are encouraged to keep up with new mobile device industry's technology knowledge (5G) and to embrace new technology requires for stepping into the Internet of Vehicle (IoV) and medical devices industry. Seminars and

technology roadmap sharing meetings are host with clients and key component suppliers and targeted vendors who are defining or leading in particular technology category to keep employees connected with innovation trend. Internally, design centers are striving to promote an atmosphere for keeping abreast of new technologies by granting rewards to encourage R&D staffs for submitting patents applications and hosting inter department technology sharing sessions, and attending trade shows.

The Group's design centers are in close proximity to worldwide leading clients and new technology zone, they are also located in those highly competitive market in the mobile devices industry. They are able to provide services from product innovation concepts to final product productions, in whole or in parts. Their full R&D function resources, global manufacturing supports, extensive experienced teams in serving worldwide clients' requirements for large demand and complex product projects become a fundamental for tightening business relationship with customers. Their proven record of serving worldwide clients, demonstrates the ability adaptably serve not only brand customers but also leading telecommunications operators. The one stop R&D services model along with experienced program/engineering service and in-house manufacturing capability can significantly decrease client's program management effort; hence, the customers can then focus on their core in promoting their brand products. These value added services with all employee uphold the customer-centric service mindset. As a whole, the R&D team helps to deliver corporate strategy; so that it highlights promising ways to reposition the business through new platforms. The R&D team is serving as the company's innovation engine. Offensively, R&D team's role is the leading vanguard for the Group's transformation in outreach in different field; defensively, its full service function differentiates the Group's R&D team from pure manufacturing service factories and/or R&D service companies. The R&D team stands in solid position to promote the Group's manufacturing resource advantage to customers in product designs. R&D team also contributes to the manufacturing upgrades; assist factories for the digitalized manufacturing process. All these have 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 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. With over 15 years' experience in consumer products development and over 10 years' experience in Android software development, the group will contribute our great capabilities in software and hardware integration and optimization to roll out disruptive products for automobiles (telematics box, in-vehicle infotainment system, smart cockpit, etc.), taking advantage of the

Group's extensive knowledge of user experience and software development in mobile ecosystems to seamlessly integrate the automobile into the driver's mobile-centric lifestyle. 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 India, the Group's is building up its R&D capability and capacity.

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.

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in 2021. In 2020, the Group has carried out the rightsizing and restructuring to eliminate redundant assets and become leaner. The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to cope with all these challenges and uncertainties from time to time as well as to maintain and enhance its performance. For details, please refer to the "Accountability and Audit" section of the Company's 2020 corporate governance report, which forms part of the 2020 annual report of the Company as issued and published on 20 April 2021.

Key Risks faced in first half of 2021

Regarding key risks faced in first half of 2021, please refer to the major risk items below.

Risks Pertaining to the Handset Business

As mentioned above, there was a year-on-year decline in handset shipments due to the smartphone market saturation, which has been exacerbated by the COVID-19 outbreak. Pricing pressure continued to be high. As a result, the general state of the global economy, COVID-19, component shortage and disruption, material price surges, geo-political risk, market competition 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. But because of component constraints, it is difficult to control component and raw material costs. The Group has ceased to manufacture Nokia-branded smartphones in 2019 and concurrently the Group has become selective when receiving orders from HMD and HMD adopted multi-ODM strategy. 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 material open purchase order risk 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 remained weak in 2020. In addition, market conditions are challenging and competition is intensifying. In view of the Group's changes in product portfolio and excess capacity, in 2020, the Group refined its approach and took necessary steps with a view to becoming an asset-light corporate group and, accordingly, the Group substantially impaired and wrote off various and eliminated 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 has continued 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. But the amount is smaller in 2021. 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. As a whole, it needs time to return to pre-pandemic levels and the Group will continue to control costs and remain agile and monitor market landscape and customer performances and utilisation of assets and assess the need to do rightsizing at the appropriate time in order to remain lean.

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 have adversely affect our and our customers' and suppliers' businesses and liquidity and cost of capital. As a result, the continued spread and resurgences 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. 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. In Vietnam, our factory followed government requirements and implemented "isolated production" in May 2021 and all the direct labors and staff required for mass production and NPI (New Product Introduction) builds will stay in factory dormitory or accommodation arranged by factory. It is like bio bubble with no outside people interactions. Staff are provided with daily allowance, modified living conditions and proper entertainment and they are glad to support in this period.

For India, from about 9,000 new cases per day (80 deaths per day) in middle of February 2021 to 400,000 new cases per day (4,000 deaths per day) in first week of May 2021, India's total death count surpassed 300,000 making it the third most impacted country after U.S. and Brazil. In order to maintain a balance between cost of lives and cost of livelihood, the Indian Prime Minister advised respective states to take measures depending of the severity of crisis locally and keep lockdown only as the last resort. Majority of states including Maharashtra (which the largest contributor to GDP and hosts the financial capital Mumbai) Delhi, Karnataka, Tamil Nadu, Andhra Pradesh and Rajasthan etc. announced lockdowns to curb the spread of virus. However, unlike 2020 when all industrial activity in India came to a sudden halt because of national level lockdown and management of our India site planned in advance for all contingencies including a lockdown. A lot of companies cut production significantly mainly because of domestic sales crash to near zero amid local lockdowns, restrictions on online sales of non-essential goods and COVID-19 infections among plant workers. Our India site sought special permit from the state government of Tamil Nadu to run its operations by getting classified under Continuous Process Industry which are allowed to function even under lockdown. One of the major risks to our India operations was emanating from the lack of supply of nitrogen since the government had directed industrial gas vendors to utilize gas tankers to transport oxygen to needy states experiencing shortage of oxygen. Timely consultations with Tamil Nadu Government and industrial gas vendors ensured that our India site kept procuring nitrogen to run its operations seamlessly. The customer target of phone shipment for May 2021 was comfortably exceeded because of measures taken in advance. EHS (Environmental Safety Health) Department ran a 24x7 support helpline with special task force to support employees & families for any medical emergencies. Oxygen Concentrators have been stocked to readily support the staff and their dependents. Constant supervision and monitoring is carried out within factory and dorm premises and buses to ensure compliance with COVID-19 protocols. After surpassing the peak of second wave, many of the firms are now starting up in a calibrated manner.

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. 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 China, 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 and the component shortage on the Group going forward will be dependent on abovementioned 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, vaccination adoption rate, speed of market recovery, government spending cuts, 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 climbs, 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

Since the elected U.S. president Joe Biden took office, the attitude toward China has changed but remain tough. On 21 May 2021, the U.S. Commerce Department officially announced that the government will keep Chinese telecom giant Huawei on a trade blacklist. "Huawei remains on the entities list, and there's no reason to think that they'll be coming off." Commerce Secretary Gina Raimondo said. All the restrictions proposed and carried out by Biden administration indicates the tense relationship between two giant entities, U.S. and China would not relieve soon. The tension has far reaching impact to global economy and the Group and the Group will keep monitoring the development.

Reliance on Key Customers and Credit Risks

The Group's five largest customers account for 96.3% 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 day 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 competitive and because of COVID-19 and associated lockdowns, component constraints, general economy weakened and current credit and market

conditions could have impact on the businesses and operating performance and liquidity and cash conversion cycle and financial condition of some of our customers, including any impact on their ability to meet their contractual obligations and trade account payables. The Group will keep monitoring credit position and late payments of customers and collections from customers and assess default risks and review adequacy of provision for Expected Credit Losses. The Group's finance team will continue to monitor closely business performance, cash position and liquidity, financial stability and credit status of HMD and will take necessary actions to mitigate the risks. 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.

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 the U.S Internet customer is not in mobile phone sector and any change to the business strategy of this customer may affect our sales to this customer. But it is encouraging that this customer is keen to devote resources in mobile phone business. 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 and order books 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 and volume of business and net income and business risks that the Group will seek and accept, setting production schedules, making component procurement commitments, optimizing asset utilisation and allocating personnel and other resources based on our estimates of our customers' requirements and strategic decisions to maintain customer relationships. Finally, there may be 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 and Price Hikes

Please refer to section "Key Relationships with Suppliers" and some other paragraphs for the details of adverse impact of component supply disruption.

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

Following the Hon Hai Technology Group objective, the Group's future business plan would focus on remaining lean and asset light and margin escalation instead of revenue growth and continually monitor the market competition conditions and COVID-19 development and supply chain situation and internal operational excellence to respond accordingly. The Group will continue to face all kinds of risks in second half of 2021. In particular:

(i) Successful COVID-19 vaccine development, allocation and administering and pandemic containment are critical to recovery of the Group's customers in major consumer markets;

(ii) Component supply shortage continues to be issue of critical importance. For the second half of 2021, supply constraints will continue, momentum now had passed on from earlier low value/low margin semiconductor commodities to high value/high margin commodities, and, onward spilled over to other non-semiconductor commodities. On top of all these, typical second half of the year seasonality in consumer electronics will only further ensure continuation of this expanding challenge. Many semiconductor sources, after extending order lead time to over 30 weeks, started to ship by allocation, i.e. even orders were placed and received by required lead time, actual shipment was still being allocated according to output and, in most cases, orders would not be filled in full. However, when most part of the world is still held up by the COVID-19 and with its continuing conflict with U.S., supply capacity in China can be a challenge from time to time. Overall supply constraint in semiconductor industry is still far from being over, it is very difficult to tell what's ahead and adjustment cycle could take another year. Capacity limitation in sea freight and rising inflation threat could bring more uncertainty to demand/supply in second half. If not anything else, rising prices in oil, steel, copper and some other basic commodities are building up over time a sufficient environment for full fledge inflation that will further drive up material costing.

At high level, the Group is experiencing component shortage and price surges and order lead time extension for almost all electronic components, semiconductors and others which affect the Group's performance and recovery path of customers. 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. 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 reliable partners, review supply base and timeliness 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;

(iii) 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 has continued 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 Group will continue such initiatives in 2021 and the scale will be linked to the speed of shrinkage of such business. But the Group will continue to expand in India;

(iv) Despite of smaller dollar amount, the Group will continue the rightsizing/restructuring exercise this year, subject to (among other things) challenging 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;

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

(vi) Possible receipt of government compensation when relocating factory to other location; and potential gain on joint venture formation. But the amount is not certain yet;

(vii) 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. and the shortage of container box continues. Container box shortages and port congestions due to pandemic-related operational disruptions have extended container ships' turnaround times. At some borders (like Vietnam), tighter controls are imposed on custom inspection and more time is needed to obtain custom clearance.

The Company refers to its announcements of 12 May 2021 and 23 July 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 and are currently expected to continue into the remainder of 2021.

Given all of the updates and other matters (including without limitation those relating to the COVID-19 pandemic and on-going developments and component shortage) described above in this "Discussion and Analysis" section, the Company considers it is currently too early and difficult to predict with any precision what further adverse impact such matters might have on the Group's performance for the six months ending 31 December 2021 (2H 2021).

The Group's latest unaudited management accounts and other information currently available to the Company do not yet enable the Company to form a reasonable, clear and meaningful view about its likely performance for 2H 2021 and for the year ending 31 December 2021 (FY 2021). At this stage, the Company considers that an outcome which involves the Company breaking even, continuing to make a loss or turning a profit for FY 2021 remains possible.

The Company has been working hard and proactively taking appropriate and reasonable steps to seek to maximise its performance through these challenging times. The Company will keep matters under close review as 2H 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 November 2021) certain unaudited consolidated financial information of the Group for the nine months ending 30 September 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. consumer behaviors, intensifying tensions, political conditions and competition, and recovery of economy of the PRC and other major economies) and industry generally;

- business condition and speed of recovery from COVID-19 and strategy of customers;

- progress of the formation of the joint venture with Stellantis;

- development and resurgences of the COVID-19 pandemic and related lockdowns and restrictions and the containment have consequential 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, 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 pandemic resurgences, 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, disposal and/or write-off of the Group's under-utilised/obsolete/depreciated assets;

- timing of receipts of claims made to customers;

- growth in 5G infrastructure and phone market. Currently dissatisfied global 5G signal coverage could in some cases dampen consumer demand for 5G phones as unstable 5G signals could lead to a poor user experience. As consumers increasingly involve in cloud applications, 5G signal coverage became more important in driving overall consumer satisfaction than other 5G features. The ramp-up to 5G carriers would potentially raise the 5G handset sales and boost the phone market;

- factors relating to the supply chain (e.g. component cost hikes, extended 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; customer and 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, India's PLI (Production Linked Incentives), scheme, government's blacklisting, negotiation with government on compensations, 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, disposal and/or write off of property, plant and equipment, goodwill, intangible assets and equity investments;

- foreign exchange gain or loss;

- timing of dispositions of equity investments and joint venture formation 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, challenges and threats emerge from time to time, and it is not possible for the management to predict all such factors or to assess the impacts of such 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period and up to the date of this announcement, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 21 April 2021) duly approved by the Company's shareholders at the Company's annual general meeting held on 28 May 2021, the Company bought back in multiple batches a total of 74,818,000 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK$93,453,660.00 from 7 June 2021 to 9 July 2021 (both dates inclusive). Among these shares so bought back, 44,818,000 shares and 30,000,000 shares were cancelled on 8 July 2021 and 26 July 2021 respectively, in all cases in accordance with the Articles. For more details, please refer to the next day disclosure returns and monthly returns as issued and published from 7 June 2021 to 3 August 2021 (both dates inclusive).

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$
7 June 2021	2,400,000	1.23	1.23	2,952,000.00
8 June 2021	2,400,000	1.23	1.22	2,942,000.00
9 June 2021	2,400,000	1.24	1.23	2,972,000.00
10 June 2021	2,400,000	1.25	1.25	3,000,000.00
11 June 2021	2,400,000	1.25	1.24	2,989,990.00
15 June 2021	2,466,000	1.24	1.23	3,047,180.00
16 June 2021	3,000,000	1.23	1.22	3,675,000.00
17 June 2021	2,400,000	1.24	1.23	2,966,000.00
18 June 2021	2,500,000	1.23	1.22	3,065,000.00
21 June 2021	2,400,000	1.24	1.22	2,966,270.00
22 June 2021	3,100,000	1.23	1.23	3,813,000.00

Date of buy-back	No. of shares bought back	Price per share Highest HK$	Lowest HK$	Aggregate consideration paid (before expenses) HK$
23 June 2021	2,400,000	1.27	1.26	3,038,000.00
24 June 2021	3,000,000	1.27	1.26	3,798,000.00
25 June 2021	2,600,000	1.28	1.27	3,318,000.00
28 June 2021	700,000	1.28	1.28	896,000.00
29 June 2021	3,452,000	1.30	1.28	4,453,080.00
30 June 2021	4,800,000	1.28	1.27	6,139,280.00
2 July 2021	3,125,000	1.27	1.26	3,962,500.00
5 July 2021	3,700,000	1.27	1.26	4,692,000.00
6 July 2021	4,300,000	1.27	1.26	5,447,500.00
7 July 2021	4,500,000	1.26	1.26	5,670,000.00
8 July 2021	8,500,000	1.26	1.19	10,530,000.00
9 July 2021	5,875,000	1.23	1.16	7,120,860.00
	74,818,000			93,453,660.00

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

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 unaudited condensed consolidated financial statements of the Group for the current period and the Company's interim report for the current period and recommended the same to the Board for approval. In addition, the unaudited condensed consolidated financial statements of the Group for the current period have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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.

CORPORATE GOVERNANCE

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

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

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

Since the resignation of Mr. Tong as the chairman of the Company, the Company has been searching for the right candidate to fill the position of chairman of the Company. However, given the importance of the role, the Board expects that it may take some time before the Company is able to find a suitable candidate to fulfil the role of chairman. In light of the tremendous market challenges and the current uncertainties relating to the vacancy of the chairman role, the Board considered that experienced leadership was of utmost importance and has resolved to adopt an arrangement by appointing Mr. CHIH Yu Yang ("Mr. Chih"), the current chief executive officer, to act as the acting chairman with effect from 1 January 2017. Mr. Chih has been the Company's executive director and chief executive officer since 28 August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive and in-depth knowledge, 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 internal control measures as more particularly described in pages 173 and 174 of the Company's 2020 annual report as issued and published on 20 April 2021.

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 the chairman and chief executive as prescribed under the code provision contained in Paragraph A.2.1 of the CG Code.

DISCLOSURE OF INFORMATION ON WEBSITES

The interim report 2021 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

"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"	the 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 six-month period ended 30 June 2021
"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
"Model Code"	the 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$0.04 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S."	the United States of America
"US$" or "USD"	United States dollars, the lawful currency of the U.S.

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 11 August 2021

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