FIH® 富智康®

FIH Mobile Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

Annual Report 2021

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CORPORATE INFORMATION

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih

COMPANY SECRETARY

WONG Kin Yan, Vanessa

REGISTERED OFFICE

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

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

LEGAL ADVISORS

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

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

2038

WEBSITE

https://www.fihmobile.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

2021 continued to be an unprecedented period brought on by a confluence of a wide range of factors including the novel coronavirus (COVID-19) pandemic, component shortages, supply chain constraints and instability, inflation, geopolitical tensions and accelerating shifts in the industry, coupled with sustained pressure from existing challenges of industry consolidation trends and intensifying competition in the EMS (Electronics Manufacturing Services) business. The restrictions by the U.S. (the United States of America) have significantly disrupted the mobile industry and supply chain, impairing one of the Group's key customers' ability to acquire and utilise globally used software and apps, and fabricate advanced chipset. But the Group has succeeded to penetrate existing customers and minimise the impact of the loss of revenue of this customer. As we have been putting effort to drive for key component supply stability and cost management and yield improvement in maintaining competitive advantage from peers, positive results for business development have been realised from various customers in feature phone, smart phone, consumer electronics and automotive mechanics business categories. The Group will also continue the asset-light strategy to recalibrate global facilities and realign resources into productive assets and all these initiatives will secure the Group's prominence and will be foundational for the Group's ability to maintain in its competitive edge across its core competency and innovate across new segments amidst a rapidly changing global and industry dynamics.

Revenue for the year 2021 was US$8,583 million, which represents a decrease of US$352 million or 3.9%, when compared with 2020 revenue of US$8,935 million. Profit for the year 2021 attributable to owners of the Company increased to US$56.3 million, compared to the loss for 2020 of US$173.9 million. Basic profit per share for the year 2021 was US0.7 cent. With improved performance from existing mobile phone business, we are driving this core business as cash cow for transformation and diversify into new business sectors. As margin of phone business is low, we only take less risky orders from reputable customers. Thus, the Group will not only focus on revenue growth but also bottom line improvement. The Group will strive and work diligently to expand capacity in diversified markets that will be drivers not only for the revenue growth but also more importantly, the profit, while continuing to harness its R&D (Research and Development) investments and resources and competence and capacity to innovate and transform into new sectors such as IoV (Internet of Vehicles), IoT (Internet of Things) (AR (Augmented Reality)/VR (Virtual Reality)/data module), AI (Artificial Intelligence) and Big Data (digital health, smart manufacturing) and diversify both customers and products. The going public of the Group's subsidiary in India will realise and return the true value to our shareholders.

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

CHAIRMAN'S STATEMENT

I would like to sincerely thank and appreciate the Group's entire staff for their sustained effort and endurance in coping with and adapting to the unprecedented difficulties and challenges that were faced in 2021 and for their continued endeavour to sustained teamwork and collaborative effort and strong execution to respond to the challenges of COVID-19 and resultant impacts and the volatile global environment. Moreover, I would like to offer my thanks to the staff and their commitment to the Group's strategies to transform into new sectors to maintain long term sustainability and competitiveness of the Group. I would also like to extend my appreciation to the continuous support provided by our management team, all staff, customers, suppliers, shareholders, business partners and the board of directors in the past year. We aim to continue to execute well and strive to make continuous escalations and improvements in the years to come.

With best regards,

CHIH Yu Yang
Acting Chairman

15 March 2022

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

CHIH Yu Yang (Mr.), Chinese (Taiwan) and aged 63, was appointed as the Acting Chairman of the Company effective 1 January 2017. He joined the Company as an executive director in August 2009. He is also the chief executive officer and the chairman of the corporate governance committee respectively of the Company. Mr. Chih has been appointed as an executive director and chief executive officer of Mobile Drive Netherlands B.V. (a joint venture incorporated in the Netherlands indirectly 50%-owned by the Company) ("Mobile Drive Netherlands") and the chairman and non-executive director of Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited, a subsidiary of the Company incorporated in India) ("BFIH") with effect from 7 June 2021 and 12 November 2021 respectively. He is a director of Transluck Holding Limited (formerly known as Transworld Holdings Limited) and the chairman of Chiun Mai Communication Systems, Inc. ("CMCS"), and a director of FIH Co., Ltd. and Evenwell Digitech Inc., all being subsidiaries of the Company. Mr. Chih is also a director of iCare Diagnostics International Co. Ltd. which is a start-up company incorporated in Taiwan and engaged in digital health care and invests in diagnostics facilities. He was a director of Executar International Limited (a subsidiary of the Company) during the period from 16 November 2009 to 1 September 2021. Mr. Chih joined the Group in 2005 when the Group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. Moreover, he is a director of a subsidiary and an associate of 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only) ("Hon Hai"). He has more than 42 years of extensive experience in the communication industries. From 1997 to 2000, Mr. Chih was the vice president and general manager of Communication B.U. in Acer Communications and Multimedia, Inc. (now known as BenQ) where he was responsible for BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hua University in Taiwan in 1980.

Dr. KUO Wen-Yi (Mr.), Chinese American and aged 56, was appointed as an executive director of the Company on 29 June 2018. He is also a member of the corporate governance committee of the Company. Dr. Kuo joined the Group in December 2014 and is currently the vice president of the Group. He is also a director of ICI Cayman Limited and a supervisor of 深圳市富宏訊科技有限公司 (Shenzhen Fu Hong Xun Technology Co., Ltd. for identification purposes only) and a supervisor of 益富可視精密工業(深圳)有限公司 (InFocus Precision Industry (Shenzhen) Co., Ltd. for identification purposes only) respectively, all being subsidiaries of the Company. Dr. Kuo has more than 27 years of extensive experiences in wireless communication product research and development, international business development, start-up business and corporate management. Before joining the Group in December 2014, Dr. Kuo was the founder and the chief executive officer of BandRich Inc. ("BandRich") from March 2006 to December 2014. The core businesses of BandRich were product development and sales of 3.5G (also known as High Speed Downlink Packet Access (HSDPA)) and 4G LTE (the Fourth Generation of Mobile Phone Mobile Communication Technology Standards Long-Term Evolution) wireless routers and communication modules for home, vehicle and outdoor applications. BandRich partnered with the world's dominant wireless infrastructure suppliers Ericsson and Alcatel-Lucent and sold products to worldwide operators. From April 2003 to February 2006, Dr. Kuo was the senior director (department head) of Compal Electronics Inc. (a listed company in Taiwan) and was in charge of the business in 3G (the Third Generation of Wireless Mobile Telecommunications Technology) mobile phone. From May 2000 to July 2002, Dr. Kuo was the co-founder and the chief technology officer of Wiscom Technologies ("Wiscom") in New Jersey, U.S. Wiscom was focusing on development of 3G mobile phone baseband chip. Wiscom's intellectual property rights were later acquired by Intel Corporation. From April 1999 to May 2000, Dr. Kuo was the principal technical staff member of AT&T Labs, engaged in 3G WCDMA (Wideband Code Division Multiple Access) system researches. From January 1995 to April 1999, Dr. Kuo worked in Bell Laboratories of Lucent Technologies on CDMA (Code Division Multiple Access) and WCDMA research and development on network infrastructures. Dr. Kuo is the inventor of 38 U.S. wireless communications patents. He received the IEEE (Institute of Electrical and Electronics Engineers) Leonard G. Abraham Prize in 2001. He was an adjunct professor at New Jersey Institute of Technology in 1998. Dr. Kuo received a Bachelor Degree of Science in Communications Engineering from National Chiao Tung University, Taiwan in 1987, a Master Degree of Science in Electrical Engineering from National Taiwan University in 1989, and a Doctoral Degree of Philosophy in Electrical Engineering from Purdue University, U.S. in 1994.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

MENG Hsiao-Yi (Mr.), Chinese (Taiwan) and aged 57, was appointed as an executive director of the Company on 30 October 2020. He is the chief operating officer of the Company principally responsible for the management of the Group's factory operations as well as resources integration and optimisation. Since Mr. Meng joined the Hon Hai Technology Group (comprising Hon Hai, its subsidiaries and/or associates) in January 1991, he has held a number of key positions in the connector and mobile phone business, including managerial roles such as (among others) senior supply chain manager, senior procurement manager, director of marketing management and business unit deputy general manager. Mr. Meng has been appointed as a director of 創億富能科技(北京)有限公司 (InnoPower Beijing Technology Co., Ltd., for identification purposes only, a subsidiary of the Company incorporated in the People's Republic of China ("China", "PRC" or "Mainland China")) and a director of 富智康精密組件(北京)有限公司 (FIH Precision Component (BeiJing) Co., Ltd., for identification purposes only, a subsidiary of the Company incorporated in China) with effect from 7 June 2021 and 1 September 2021 respectively. He is also a director of certain subsidiaries of the Company, namely FIH Precision Electronics (Lang Fang) Co., Ltd., FIH (Tian Jin) Precision Industry Co., Ltd. and 富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd. for identification purposes only) respectively. He was a director of Bharat Corporation (formerly known as Rising Stars Taiwan Corporation, a subsidiary of a Company incorporated in Taiwan) during the period from 28 June 2021 to 8 November 2021. He has gained over 30 years of extensive experience in factory operation management as well as resources integration and optimisation. Since 2010, Mr. Meng has been independently in-charge of business unit management operations and led and developed OEM (Original Equipment Manufacturing) business with some of the world's leading customers and overseas markets. During his tenure, he has developed and earned a high degree of trust with the Group's customers and partners, especially functioning as a pivotal strategic partner of customers in cross-region resources integration, production, efficiency enhancement, cost and inventory reduction, Industry 4.0 (the fourth industrial revolution) smart factory and other projects. Besides, the performance of the business unit led by Mr. Meng has been highly appreciated and awarded the Group's Best Business Performance for three consecutive years. In January 2019, Mr. Meng was promoted to vice president for leading EMS (Electronics Manufacturing Services)/OEM business in the aspects of cross-region markets development and management of manufacturing operations in Beijing, Langfang and India. Mr. Meng graduated from the Taiwan Zhonghua Senior High School in 1984.

LAU Siu Ki (Mr.), Chinese (Hong Kong) and aged 63, joined the Company as an independent non-executive director in December 2004. He is the chairman of the audit committee, remuneration committee and nomination committee respectively of the Company. He has over 40 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing. Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. Mr. Lau was a member of the World Council of ACCA from 2002 to 2011 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. He serves as an independent non-executive director of Binhai Investment Company Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Samson Holding Ltd., TCL Electronics Holdings Limited and IVD Medical Holding Limited, whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lau also serves as company secretary of Yeebo (International Holdings) Limited, Hung Fook Tong Group Holdings Limited and Expert Systems Holdings Limited (whose shares are listed on the Stock Exchange). On 31 October 2019, the Securities and Futures Commission (the "SFC") announced that it had started Market Misconduct Tribunal ("MMT") proceedings against China Medical & Healthcare Group Limited ("CMHGL") and six individuals who were CMHGL directors at the relevant time, including Mr. Lau, for failing to disclose inside information as soon as reasonably practicable. On 12 May 2021, the SFC announced the conclusion of those proceedings and the MMT's findings, including those against Mr. Lau. The Company carefully assessed the MMT's findings, and concluded that it remained in the Company's best interests to retain Mr. Lau as an independent non-executive director and as chairman of its audit, remuneration and nomination and independent board committees. Please see the Company's announcements of 12 and 20 May 2021 and page 119 of the Company's 2021 interim report (as issued and published on 15 September 2021) for further details of the Company's assessment.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Daniel Joseph MEHAN (Mr.), American and aged 77, joined the Company as an independent non-executive director in July 2007. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. He was the chief information officer of the Federal Aviation Administration from 1999 to 2005. Prior to that, Dr. Mehan was senior level executive who held a variety of leadership positions at AT&T for over 20 years, including international vice president and international chief information officer. Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development. Dr. Mehan received both his Ph.D. in Operations Research and Master of Science in Systems Engineering from University of Pennsylvania, U.S.

TAO Yun Chih (Mr.), Chinese (Taiwan) and aged 47, joined the Company as an independent non-executive director on 9 March 2017. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. Mr. Tao is a partner of DMC & Partners Consulting Co., which focus on providing digital transformation consulting services to traditional business owners, with effect from 1 December 2017. Mr. Tao has been appointed as a director of EasyCard Corporation (a company providing contactless smartcard payment system (EasyCard) service in Taiwan) and a director of GLOBAL MALL CO., LTD. (a company operating a chain of one-stop shopping malls in Taiwan) with effect from 24 March 2021 and 2 July 2021 respectively. Mr. Tao is an independent director of Grand Hall Enterprises Co., Ltd. whose shares are listed on the Taipei Exchange. He was a consultant of XRSPACE, which is a social reality XR (Cross Reality) platform start-up, during the period from 18 February 2021 to 30 April 2021, and before that, he was the president of XRSPACE during the period from 1 April 2020 to 17 February 2021. Before joining XRSPACE, he had served in various start-ups in telecommunications, entertainment and internet industries, including his role as the general manager of Circles Life Taiwan (a global telecommunications start-up with headquarters in Singapore) during the period from 13 January 2020 to 20 March 2020. Before joining the Company, he was the general manager of LINE Taiwan as well as the director and general manager of LINE PAY Taiwan (both belonging to the South Korean internet search giant whose business is mainly associated with the development of mobile applications and internet services). He has over 20 years of experience in start-up, growth, management and consulting, and particularly deep insights in internet development, mobile application industry, emerging market evangelism, and digital trend. Mr. Tao received a Bachelor of Science degree in Physics from National Taiwan University, Taiwan in 1996 and a Master of Science degree in Environmental Engineering from National Taiwan University, Taiwan in 1998.

SENIOR MANAGEMENT

HSIUNG Nai-Pin, Paul (Mr.), Chinese (Taiwan with U.S. nationality) and aged 57, joined the Company as director of business development in January 2003. He is responsible for operations in America region including production, logistics and after-market service since 2012. Prior to that, Mr. Hsiung held various functions and positions in mobile phone industry with the Company. From 2003 to 2008, he was responsible for business development and project management in Florida, U.S. From 2009 to 2012, he was responsible for mobile phone design and development in Florida, U.S., and also product manufacturing at Langfang, China. Before joining the Company, Mr. Hsiung was a director at Test Research, Inc. (a Taiwan listed company) for 8 years and responsible for international sales and marketing. Mr. Hsiung has been appointed as a director of iCare Diagnostics, Inc. and DirectMDx, Inc. (both of which are incorporated in Delaware, U.S.) with effect from 28 December 2020 and 20 January 2021 respectively. Mr. Hsiung is also a director of certain subsidiaries of the Company, namely Excel Loyal International Limited, FIH Mexico Industry SA de CV, Prospect Right Limited, S&B Industry, Inc., SP International, Inc. and Sutech Holdings Limited respectively. He was a director of FIH (Tian Jin) Precision Industry Co., Ltd. (a subsidiary of the Company incorporated in China) from June 2011 to November 2021. He obtained a Bachelor degree of Applied Physics from Tamkang University, Taiwan and a Master degree of Computer Science from New York Institute of Technology, U.S.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

TAM Kam Wah, Danny (Mr.), Chinese (Hong Kong with British nationality) and aged 58, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief financial officer of the Company. He is responsible for accounting and internal and external financial reporting, financial planning, taxation, investment management, internal control, investor relations, corporate governance, risk management and performance review of the Group. He has been appointed as a non-executive director of Mobile Drive Netherlands and a non-executive director of BFIH with effect from 23 June 2021 and 20 October 2021 respectively. Mr. Tam has over 34 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd. (now known as China Oceanwide Holdings Limited) and he also worked as an accounting manager for Coates Brothers (HK) Co., Ltd. Mr. Tam is a fellow of the Taxation Institute of Hong Kong and an associate of Hong Kong Institute of Certified Public Accountants. He is also a certified tax adviser. Mr. Tam received a BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University, the People's Republic of China in 2005.

CHEN Hui Chung, John (Mr.), Chinese (Taiwan) and aged 60, joined the Company as senior director of finance division in August 2013. He is responsible for treasury, financial investment and financial risk management of the Group. Mr. Chen has over 32 years of experience in finance areas in Taiwan listed companies. Before joining the Company, he was the chief financial officer of Taiwan Synthetic Rubber Corp and Wan Hai Lines Ltd. respectively. Mr. Chen has been appointed as a non-executive director of BFIH with effect from 20 October 2021. He is also a director of a subsidiary of the Company, namely FIH Co., Ltd. He received a Bachelor of Transportation and Communication from National Cheng Kung University, Taiwan in 1983 and a MBA from University of California Irvine, U.S. in 1987.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") hereby announces the annual report incorporating this report of the directors, particularly the audited consolidated results of the Group for the year ended 31 December 2021 (the "current period", "reporting year" or "current year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the principal subsidiaries are set out in the consolidated financial statements on pages 200 and 201. The Group is principally engaged as a vertically integrated manufacturing services provider for the handset industry worldwide. It provides a wide range of manufacturing services to its customers in connection with the production of handsets. For more details, please refer to the "Business Review — Discussion and Analysis — Introduction" section below.

RESULTS

The results of the Group for the current period are set out in the consolidated financial statements on page 120.

BUSINESS REVIEW

Important

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

The Company refers to its announcements of 12 May 2021, 23 July 2021, 11 November 2021 and 3 December 2021 respectively, which in turn referred to (among other things) the novel coronavirus (COVID-19) pandemic 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 profit for the current period. In this respect, please also refer to "2022 Outlook" below.

The annual report incorporating this report of the directors contains forward-looking statements regarding the Company's expectations and outlook on the Group's order book, business operations, opportunities, 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, the scope and duration of the COVID-19 pandemic and its impact on our sites, customers, supply chain and operations, the anticipated impact of COVID-19-related government relief measures, and our intention to apply for, and the anticipated receipt of COVID-19-related government relief packages, changes in general industry and macro-economic environment (such as intensifying tensions and political

conditions), changes in money markets (such as interest rate hikes and volatility in foreign exchange rates), changes in capital markets, competition, shifts in customers' demand and preferences, customer outsourcing, competitive challenges affecting our customers, managing fluctuations in customer demand and other related customer challenges that may occur, seasonality of sales, shifting of end-user preferences and higher revenue volatility, changes in sales and product mix and asset utilisation, changes in commodity price, shortage of components (like chipsets and displays), and materials constraints and prolonged delivery lead time and rises in prices, our growth and diversification strategies and plans (and potential hindrances thereto), our credit risk, risks associated with international sales and operations, pace of technology advancement, and changes in market/legal/regulatory/government/tax policy (e.g. government's blacklisting, export controls and bans against the Group's major customer), the potential adverse impacts of events outside of our control. 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 "2022 Outlook") below. The Company undertakes no obligation to update or revise any such forward-looking statements to reflect any subsequent events or circumstances, except as otherwise required by applicable requirements laid down by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

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

Discussion and Analysis

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (and together with its subsidiaries and associates (as defined in the Listing Rules), the "Hon Hai Technology Group"; 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 leading-edge manufacturing technology and vertically integrated manufacturing services to its customers with improved product quality, increased flexibility, faster time to market, and overall value. The Company offers solutions that span from initial design and product development through ramp-up and volume manufacturing and this business model offers 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 and this full range and array of capabilities provide our customers with expertise across the entire value chain. 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 and design 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. Technology innovation is at the center of our ability to deliver these end-to-end capabilities. Our customers leverage our services to meet their requirements throughout the entire lifecycle of their products. 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 a majority of the market participants face challenges with respect to the operating margin as component prices are on an average and key focus lies on the labour costs. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans and currently this is viewed as a significant restraining factor for the market. Keen market competition makes it 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 in different countries due to COVID-19 and the extent and severity and duration of the impact remain uncertain. The rapid spread of the virus in 2020 prompted shutdowns of industries around the world and, while most of us were in lockdown, there was lower consumer demand and reduced industrial activity. One year on, the world is learning to co-exist with the virus. Not only do those disruptions impact the economy, businesses, and people, they also have direct implications for financial markets. Border controls and mobility restrictions, unavailability of a global vaccine pass, and pent-up demand from being stuck at home have combined for a perfect storm where global production has been hampered because deliveries are not made in time, costs and prices have risen, logjams at ports and GDP growth worldwide has not been as robust as a result. Amid higher consumer demand for goods that have been in short supply, freight rates for merchandise coming from China to the U.S. and Europe have soared, while a shortage of truck drivers across both the latter regions has exacerbated the problem of getting goods to their final destinations, and has led to high prices once those products hit store shelves.

Other than handset business, with the goal to continuously maintain its competitiveness, the Group has invested in diversification and transformation in product mix starting from 2019. By leveraging our over decades of experience in wireless communication technology and software and hardware integration experience, the Group established a wholly-owned subsidiary Mobile Drive Netherlands B.V., and its subsidiaries (hereinafter collectively referred to as the "Mobile Drive Group") to step into the automotive business. It is worth mentioning that Mobile Drive Group made several impressive achievements and reached a major milestone in 2021. On 23 November 2021, Mobile Drive Group has received ASIL-D, the highest level of ISO 26262 automotive functional safety certificate. With ISO 26262 certification, Mobile Drive Group aims to leverage its great practice in software and hardware integration to roll out disruptive products with highest safety standard for automotive industry. Most significantly, at the end of December 2021, Mobile Drive Group became jointly owned by the Group and Stellantis N.V. ("Stellantis"), one of the world's leading automakers and a mobility provider, combining with wide resource and solid experience from both sides, Mobile Drive Group would leverage its expertise in wireless communication and automotive industry to focus on the software and hardware integration to develop a smart cockpit solution for in-vehicle infotainment system while the Group would become the strongest anchor partner to provide all the supports from the hardware manufacturing side. Besides, the Group has been closely working with the top OEMs, 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 in the near future.

On 31 December 2021, the Group ceased to have control over the entities in Mobile Drive Group it previously owned and which were then become jointly owned by the Group and Stellantis, and hence those entities originally owned by the Group ceased to be the subsidiaries of the Group and their respective financial results, assets and liabilities shall no longer be consolidated into the Group's financial statements. The joint venture, which wholly owns the Mobile Drive Group, became owned by Wonderful Stars Pte. Ltd. (subsidiary of the Group) as to 50% of the joint venture's total equity interest, and thus the investment in the joint venture and the subsequent share of profits/losses of the joint venture will be accounted for by equity method in the Group's consolidated financial statements after 31 December 2021. There was a derecognition of assets and liabilities of approximately US$20.6 million and US$16.6 million respectively and recognition of an investment in a joint venture of US$40 million on the Group's consolidated statement of financial position, and a recognition on the Group's consolidated statement of profit or loss and other comprehensive income of a gain of approximately US$34.9 million (before taxation, if any), calculated by (1) the difference upon completion of joint venture formation between the carrying amount of the assets and liabilities of the joint venture of US$4 million and the fair value of the Group's equity interest in the joint venture of US$40 million, and (2) the transaction costs directly attributable to the transaction of approximately US$1.3 million, (3) the gain from reclassification of cumulative translation reserve of approximately US$0.2 million. The consideration for the Group's disposal of its interests in the assets and liabilities of the Mobile Drive Group is the Group's share of equity interest in the joint venture upon completion of the joint venture formation. The Group currently intends to hold the investment in Mobile Drive Group as a long-term strategic deployment into the joint venture's business objectives and activities.

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 starting from last few years 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 and geographical performance, 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 the long term, if overall demand increases, market participants will be able to expand through technological investments. Thus, the impact maybe lower in the mid to long terms.

In regards to the global consumer electronics industry, the COVID-19 challenge has catalysed the acceleration of digital transformations, and demand for consumer electronics spiked, causing an urgent need for devices supporting activities such as work from home and remote learning. PC & tablet are two of the significant beneficiaries of COVID-19 outbreak. According to International Data Corporation (IDC) report released on 12 January 2022, global shipments of traditional PCs reached 348.8 million units in 2021, up 14.8% year over year, marking the highest level of shipments in the PC market since 2012. Another IDC report released on 31 January 2022, stated that worldwide tablet shipments reached 168.8 million units in 2021, up 3.2% year over year, which also represented the market's highest level since 2016. As consumer spending shifted to adjacent markets like PCs and tablets, it unavoidably exerted a profound impact on smartphone business. In terms of global smartphone market, according to IDC report on 27 January 2022, despite that the total shipments reached 1.35 billion in 2021, the extent of growth was still confined under persistent component shortages and increased cost of logistics, with a conservative 5.7% annual growth over 2020 which was heavily pinned down by the outbreak of COVID-19. In the meanwhile, easing restrictions across many countries led consumers to increase spending in the categories other than handsets, especially to the countries have approached mobile phone market saturation. These all caused fierce price competition and shrinking profit margins throughout the smartphone industry.

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 Group's repair services provide comprehensive capabilities of return management and services and product repair/refurbish solutions in mobile device industry. The repair service centers are proximity close to market and are scalable with ability to ramp up in a rapid manner and end-to-end manufacturing capabilities allow the handling of high-mix-low-volume customers. The Group 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 ramp up the production and 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 and global economy slowdown. The extensive global expertise provided a solid foundation for serving existing and potential clients disregard national boundaries. Weak global economic situations, geopolitical uncertainty and instability in financial markets will definitely have negative implications of the business of the Group and financial conditions and business of our customers. 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 chipset and component shortage and supply chain constraints and work to manage our strategies, priorities, costs, overheads, footprint, capital expenditures and resources to anticipate and prepare for any changes we deem necessary and make continuous improvements. 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 optimised headcounts and cut costs and expenses 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.

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 example, for India operation of the Group, it has devoted a lot effort to develop new customers of other consumer electronic products such as hearables, TVs and e-scooters. In particular, the Group has been engaged in 5G, IoV (Internet of Vehicles) and AI (Artificial Intelligence) since 2019 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 competencies 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 recent years, the U.S. and China have been locked in a serious economic competition. Since the inauguration of President Biden, the focus of the U.S. has shifted from trade war to technology sanctions, which creates the uncertainly and instability toward the global supply chain. According to Financial Times report on 15 December 2021, the U.S. have already placed 60 Chinese groups in Chinese military-industrial complex companies blacklist, and expected to place more than two dozen Chinese companies on the "entity list". The Biden administration also considers tightening rules on U.S. companies selling technology to Semiconductor Manufacturing International Corp (SMIC), China largest chipmaker. The ongoing U.S. government sanctions on specific Chinese companies, and the ban on SMIC, have contributed to supply tightness, and even severe shortages, in a wide range of common electronic components starting from the third quarter of 2020 and now continuing into 2022. Furthermore, the standoff situation is fueled by the escalating confrontation between China and the U.S. over Xinjiang issue as well. On 23 December 2021, Biden signed the Uyghur Forced Labor Prevention Act, inhibiting imports from China's Xinjiang region unless the importer can prove they were not made with forced labor.

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. Global shortage of semiconductors is a problem that has shuttered some automotive production pipelines and adversely affected other industries, including smartphones and other consumer electronic products. 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. As at the J.P. Morgan Tech/Auto Forum held on 5 January 2022, many semiconductor executives said that they didn't see any improvement for shortages before the middle of 2022 and many even said not even then. Likewise, Intel CEO Pat Gelsinger also estimated that the chip shortages will persist until at least 2023, and the situation will ease in the second half of this decade, according to Breaking The News report on 9 February 2022.

The Group believes that our continued effort on business diversification and transformation and making continuous improvements is critical to the long term sustainability of the Group and strategically positioning the Group to take advantage of the future growth prospects of OEM and ODM services and remains competitive.

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 which can enhance competitiveness of customers. Such repeatable execution which adapts to ever-changing macro-economic conditions provide clear value to customers. But because of outbreak of COVID-19 and the resultant supply chain chaos, end market demand becomes uncertain and volatile and our customers are more cautious in their demand planning and demand visibility is shortened and this makes it difficult for the Group to schedule production and maximise utilisation of our manufacturing capacity and to estimate order book. As long-term partnership has been established 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, quality management, research and development, streamlining production process to improve learning curves and yield, human resource management and talent development to deliver all projects and services in a timely and efficient 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 service offerings and domain expertise 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 and streamlining production process, improving responsiveness and flexibility, magnifying efficiency, escalating automation, executing solid cost-control measure and cultivating talents. From Enterprise Risk Management (ERM) perspective, the Group has been operating in a dynamic market a sustainable business with a well-balanced and diversified portfolios from a customer and product and geographical diversification perspective.

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 phone production volume and shipment and sales and our ability to estimate order book. The "second wave" of the COVID-19 pandemic in India started in April 2021 and continued until June 2021. The second wave caused widespread mortality, severely strained healthcare resources across the country and adversely affected its operations. Following the second wave and with increased vaccination and relaxation in social distancing norms, operations in our India campus partially stabilised. Adverse second wave of COVID-19 infections also impaired the handset industry, with rising demand uncertainty in terms of customer confidence in spending, has resulted a constraint on smartphone growth in 2021 in those regions. India, the second largest mobile phone market, started 2021 on a positive note, posting an outstanding

42.3% year-over-year shipment growth in the first half of the year, with a record of 72 million smartphone shipments, primarily propelled by the new models released paired with promotions and pent-up demand from 2020. Although the massive second wave of COVID-19 has brought India economy to a stagnation with lockdowns and restrictions have been imposed across several states in the second quarter, subsequently dampening the consumer demand for smartphones that were not considered a necessary category amid the restrictions, it still reported double-digit growth due to the lower baseline of shipments when compared with 2020. However, in the third quarter, in consequences of the serious component shortages and the lower ASP (Average Selling Price) of Indian smartphone, the brand companies prioritised the higher-price smartphones in other countries; in other words, the Indian demand for consumer electronics was sacrificed. The smartphone shipments saw a 11.5% year-over-year, reflecting apparently the impact of chip constraints.

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. Several major industrial parks in Be Giang province were compelled to temporarily shut down on in May and June, adversely affecting thousands of factories operated by domestic and international companies in Vietnam. Though the situation improved in July, the chip shortage problem came after immediately. According to IDC data, the smartphone shipment dropped by 8.0% and 27.8% in the second and third quarter respectively.

It is evident that the supply chain constraints caused a drastic decline in the handset shipments. In the beginning of the year, demands for automobiles, smartphones and other consumer products spiked after the economic recovery from the pandemic-induced recession. The problem of shortage for chips and semiconductor components surfaced. Worldwide chip manufacturing capacity has never been as tight as before, especially the 8-inch wafer foundry which produced the less expensive but essential IC chips. Longer lead times for mature process chips has caused smartphones could not be assembled as final products to further decrease the shipment even though demand was strong. According to China Academy of Information and Communications Technology (CAICT), 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. Even worse, the component shortage prolonged to the second half of this year. The mobile shipments continued to slide with a 4.15% quarter-over-quarter of decline until a leading America smartphone company substantially ramped up its new phones in the fourth quarter of 2021. According to IDC data, it reported 5.8% and 3.2% year-over-year decline in the third quarter and fourth quarter respectively in terms of global smartphone shipment as many smartphone brand companies could not deliver products as they expected owing to restricted chips.

As mentioned above, our customers are more cautious in their demand planning and demand visibility is shortened. 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 and competition 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 requirements of customers, 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, and the longer duration of smartphone usage. Customers have less intention to purchase a new handset as the old phone is still usable and the new-released models don't give more attractive features. 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, the States 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. The Group believes its long term business relationship with major customers are the result of the Group's track record of meeting commitments in quality and delivery and delivering the core value and services which are crucial to the increase of customers' competitiveness.

Major Customers

The Group's major customers include top international brands. Despite the initial focus of Chinese customers in their domestic market, capital, technical and know-how advances have shifted focus to global expansion. As a result, Chinese brands have become extremely successful in different countries and markets (like India and Europe), and their expansion outside the Chinese market contributes to mitigating the Group's risk. But the outbreak of the COVID-19 has made the electronics industry under pressure owing to the logistics slowdown, component shortage, 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 originally less visible but now becomes the most impactful is 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. 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 and capitalise on the growth of domestic market in these countries. The Group believes that maintaining a global footprint and expertise and regional capability are 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, and improving overall production efficiency and diversifying country risk whilst providing customers the ability to quickly adapt to external ever-changing regional, trade and manufacturing dynamics. The customers are growingly demanding a board range of manufacturing solutions and services globally and at the same time transitioning to regional support in local areas to take advantage of time to volume and time to market and specific customisation as this is key to their winning in those markets. This expansion and customer and product diversification effort and vertical integration strategy will continue with larger expansion expected 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 and the Group has put tremendous effort to expand overseas. In 2021, the Group has devoted resources and effort to build up R&D capabilities for mobile devices, especially for cellular embedded products, including cellular modem, antenna and radio engineering, software, mechanical/thermal engineering and operator network testing and customisation and the Group succeeded to break the ice on entry into U.S. market this year and gradually developed some new overseas customers there and manufactures products including mobile phones, cellular embedded tablets, cellular embedded routers and data modules. 5G products are gaining more momentum as the U.S. operators are promoting more 5G services and 5G products are becoming more affordable as chipsets for mid-to-low tiers products become available and the Group is seeing more 5G products in our shipment portfolio based on the momentum. The difficulties encountered are fierce competition in this market segment which pressures us in cost and new technology adoption, and the semiconductor shortage causes fulfillment difficulty and loss of revenue/profit opportunities. But both of these driving forces push us for continuous improvement in design and sourcing capabilities as well as more closed partnership with key part suppliers. Given our success in production ramp-up for top tier U.S. operator business, we see promising opportunities for other U.S. operators and expansion of more product portfolios.

Major customers include:

(i) A key Chinese customer whose smartphone business continued to struggle following a U.S. blacklisting. According to the latest data issued by IDC, this customer's accumulated worldwide shipments until the third quarter of 2021 faced a 64.2% year-over-year decline with a drastic volume drop to 56.1 million and no longer a top 5 global brand. Echoing to this customer's financial performance, its revenue for the first three quarters of 2021 declined by 32.1% year-over-year to RMB455.8 billion. The worsen financial figures indicated that the customer continued to be weighed down by U.S. sanctions destroying its smartphone sales. This customer took advantage of many developed technology and resources from the mobile phone division to aggressively develop new businesses. On 5 November 2021, founder of this customer spoke to his employees, saying that the company has established five new business units inclusive of coal mining, smart highways, data center energy management, customs and port operations, and smart photovoltaic cells, which are adopting 5G mobile technology, cloud computing, AI, and the internet-of-things to focus on operating the digital transformation for a range of traditional sectors. In respect of automotive business, the company unveiled its intelligent automotive solution, supplying leading carmakers with automotive chips, lidar sensors and other technologies that allow cars to link to the internet and to each other in April. In November, the company got deeper involved into electric vehicle space, offering the first view of the sports utility vehicle (SUV) with partnership Changan Automobile and CATL. As the customer changed its development direction, the Group has accordingly adjusted the resources and manufacturing capacities to respond. It is also in line with our objective of reducing the reliance on smartphones only business.

(ii) With the strong growth of another key Chinese customer, the Group's negative impact resulting from the above-mentioned customer was offset partially. This customer reported a strong financial results for the first half of 2021, with a revenue growth of 75.5% year-over-year mainly contributed by its smartphone business, as it captured market share from one-time sector leader and made a sharp growth in the developing regions, in particular Central and Eastern Europe and Latin America, which soared by three-digits growth rate. In addition, according to IDC, this customer's shipment of the smartphone market in mainland China increased 66.6%, due to the low shipments in the base year caused by COVID-19, the huge market shares released by one of the major competitors who retreated from the market, as well as its high-end smartphone penetrating strategy. It is worthy to note that its global shipments of high-end models in the first three quarters of this year climbed almost double with 93.3%, indicating the fast speed of expansion in the premium market. However, this customer suffered from the serious chip shortage problem and the pandemic burst in South Eastern Asia. The Group was hampered by COVID-19 safety protocol and headcount shortage in the second quarter and lack of components to lower a part of capacities in the second half of 2021, resulting in the decline in shipment of this customer. According to IDC, the customer's shipment collapsed by 50.6% in the third quarter, resulted from the component constraint problem aroused in the many regions worldwide. The shipments were lower largely than the expectation and failed to fulfill the market demand. The less than expected shipments result on smartphone reflected on this customer's third quarter performance, its revenue only raised by 8.2% year-over-year, wherein a very slight increase of 0.5% in its smartphone revenue. In this customer's third quarter investor conference call, it pointed out the dwindling smartphone shipment was mainly due to a global shortage of key components. Nevertheless, the customer still outperformed its competitors with the highest year over year shipments growth in global top 5 smartphone companies.

(iii) HMD is a company headquartered in Finland. HMD's mission is providing accessible connectivity for everyone and the transactions between HMD and FIH Group are presented under the European segment. With an ongoing commitment to security, durability, reliability, and quality across its range, HMD is the only major European smartphone provider and the proud exclusive licensee of the Nokia brand for phones, tablets and accessories distributing Nokia phones and tablets and HMD services to the world. Since 2019, HMD has transformed its business to ensure continued growth and 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. In 2020, 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 specialises in software, security related intellectual property and services. The centre carries out continuous R&D mobile and enterprise cybersecurity and HMD have partnered with the ioXt Alliance — the global standard for IoT security.

During 2021, the supply constrains have impacted the whole industry in unprecedented ways 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.

In 2021, HMD is driven by the needs of their consumers who want three things — products and services they can fall in love with; devices they trust to be secure; and that they can keep for a long time. HMD continued to expand their services portfolio after the successful launch of HMD Connect and HMD Connect Pro in 2020. The company introduced HMD Mobile, the first mobile connectivity service in the UK, and HMD Enable Pro, an EMM (Enterprise Mobility Management) solution for IoT and Enterprise use providing a simple one-stop shop for reliable mobile connectivity as well as partnering with Nokia to provide best-in-class infrastructure. HMD continues to drive transformation in its enterprise business. In addition to offering smartphones for enterprise customers, HMD now offers value-added services, one-year extended warranty plan and Nokia phone insurance. HMD offers the world's broadest Android Enterprise Recommended range, supplying every area of business — from the public sector, to finance, to healthcare, manufacturing and logistics. On the device front, HMD announced a new smartphone naming convention in 2021, the C, G and X series across their core line-up. HMD also launched the XR20, their most durable smartphone to date, a life proof phone and entered into a new category with their first tablet, the T20.

2020 started supply constrains continue to impact the industry in unprecedented ways during 2021 while the COVID-19 pandemic waves have been more pronounced in key emerging markets like India. These supply shortages and increased component prices have impacted also HMD's business performance. Indirect impacts from COVID-19 are severely impacting logistics and in the second half of 2021 as HMD started to see freight costs increase significantly. Country COVID-19 restrictions together with flight cancellations are not only increasing freight costs but have also delayed some deliveries. HMD have continued their efforts with their partners to secure the supply volumes to meet the forecasted demands. Added to that, due to their increased efforts in online stores, the situation improved in 2021. HMD transformed their sales and marketing approach in 2020, moving their focus to digital first. The first new online stores were opened in the U.K. and U.S. in 2020, and the concept was rapidly expanded after the fiscal year ended in 2021, so that they now cover 14 markets. Despite the challenging market conditions, HMD is achieving pre-COVID sales levels in the second half of 2021 even as supply continues to limit net growth. The company has also been able to achieve satisfying gross margin levels.

HMD have a clear purpose — they believe in connecting the world without costing the earth. As a company headquartered in Finland, sustainability has always been at the heart of what HMD does, with a track record for robust, long-lasting devices that don't end up in landfill before their time. In 2020, HMD doubled down on sustainability by integrating their sustainability management system into their business strategy. They focused on four key areas: environment, labour and human rights, compliance and sustainable procurement. In 2021, HMD submitted their first Communication on Progress (COP) report to the United Nations Global Compact (UNGC). HMD reports annually on their carbon footprint and include their supplier base to expand their reporting of Scope 3 emissions in 2021. The company also joined the Global Reporting Initiative (GRI). In recognition of these efforts, HMD received a gold medal by EcoVadis in 2021 (up from Silver in 2020) — putting them in the top 6% in their industry for commitment to sustainable practices.

(iv) Ensky Technology Pte. Ltd. ("Ensky") is the customer 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.

(v) 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 who is one of the most innovative Internet companies in the world. The Group was also impacted by component shortage which lead to a less than expected output in 2021 to this customer. To curb component shortage, the Group placed longer order to secure supply sources, however, the soaring labor cost and fluctuation of capacity due to unstable material supply continues to impact its contribution to the Group. The Group would keep collaborating with the customer and provide exceptional technical skills and capabilities for being a close partner to help them acquire more market share.

(vi) Sharp Corporation ("Sharp") 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 in Japan market for five consecutive years since 2017. According to IDC data, Sharp secured a top 2 ranking in Japan's total smartphone market and 5G mobile phone market in the first three quarters of 2021. With that, Sharp's global smartphone shipments grew up by 18.2% year-over-year in the period. 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.

Referring to above, 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 18.2% and 11.0% 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 30.7% of the Group's total revenue in the current period.

Amongst the Group's five largest customers during the current period which accounted for approximately 93.5% of the Group's total revenue and three of them have had long-term and well-established relationships with the Group for more than five years whilst the other two have been the Group's customers for more than 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 end customer behaviour and external market dynamics and COVID-19 development and component shortage and supply chain constraint. Some economists contemplate whether the COVID-19 pandemic could lead to a slowdown of global economy. 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$4.7 million (when compared to the allowance for credit losses of US$6 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 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 and component shortage and border control and Ukraine warfare and keen competition and the business performance, some of the Group's customers including major customer like HMD may experience financial constraints and tight cash flow 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. HMD is now raising fund and the Company is monitoring closely the progress and evaluate risk to the timely collection of trade receivable and default risk. 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 expected credit loss percentage for those trade receivables during the current period. The Company will continue to closely monitor the situation and take necessary collection actions according to Company policy and make a greater allowance for expected credit losses arising from trade receivables according to requirements of relevant accounting standards.

On top of phone manufacturing business, the Group also has a strong reverse logistics and repair/refurbish services function which offer 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, medical product, and automobile electronics and its customers including name brand OEM, mobile carriers and 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 operations in the U.S. and Mexico have gradually recovered from the impact of COVID-19 to normal. Thanks to the strong demand in regional electric vehicle industry and also demand driven by "made-in-North-America", we foresee more business opportunities for our North America operations. And capital investment on increasing manufacturing capacity to satisfy new customers' demand for the coming years, will be key action items for Chihuahua factory in 2022. However, due to global supply chain challenges lingering to 2022, material shortage and logistic cost efficiency are risks at both operation sites.

Impacts of COVID-19 and Supply Chain Disruption

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 since the vaccines has been widely injected.

Notwithstanding the consumer demands has recovered partially and manufacturing lockdown under stringent restrictions eased, amid higher consumer demand for goods that have been in short supply, different parts of the world have experienced supply chain issues that have been exacerbated for different reasons and freight rates for merchandise coming from China to the U.S. and Europe have soared, while a shortage of truck drivers across both the latter regions has exacerbated the problem of getting goods to their final destinations, and has led to high prices once those products hit store shelves. The supply of semiconductor component continued to not meet the end demands as the capacities is still limited, power shortages in China in October have affected production in October 2021, while in the U.K., Brexit has been a big factor around a shortage of truck drivers. The U.S. also battled a shortage of truckers, as is Germany, with the former also experiencing large backlogs at its ports. Border controls and mobility restrictions, unavailability of a global vaccine pass, and pent-up demand from being stuck at home have combined for a perfect storm where global production will be hampered because deliveries are not made in time, costs and prices will rise, and GDP growth worldwide will not be as robust as a result. Supply will likely play catch up for some time, particularly as there are bottlenecks in every link of the supply chain, especially for containers, shipping, ports, trucks, railroads, air and warehouses. Supply chain bottlenecks lead to congestion and blockages in the production system and have affected a variety of sectors, services and goods ranging from shortages of electronics and autos (with problems exacerbated by the well-known semiconductor chip shortage) to difficulties in the supplies of meat, medicines and household products.

The pandemic has only served to highlight how interconnected, and how easily destabilised, global supply chains can be. The pandemic has highlighted deep fragilities in these networks, with disruption in one part of the chain having a ripple-down effect on all parts of the chain, from manufacturers to suppliers and distributors with disruptions ultimately affecting consumers and economic growth. As economies get back on their feet, the supply chain crisis has come to the fore as one of the biggest challenges governments now face. COVID-weary citizens are eager to spend again but are finding goods either absent or much more expensive. China and Europe are also experiencing growth problems on the back of supply chain issues. China reported its fourth-quarter GDP grew a disappointing 4.0% from the previous quarter with supply chain issues contributing to the slowdown in activity. It is well acknowledged that manufacturing was hit hard by supply chain disruptions due to COVID-19 as some port operations were hit and chip shortages continued in the second half of 2021. According to IDC report on 28 January 2022, fourth quarter global smartphone shipments reached 83.4 million units, a 3.5% year-over-year decline. In addition to the compounded component shortages, the industry has also faced stricter testing and quarantining policies which delayed transportation, and power supply constraints in China which restricted manufacturing of key components. The lower than expected third quarter shipments, the continued component shortages and logistical challenges lead IDC to lower its growth forecast for 2022 from 3.4% to 3.0%. The fact that the chipset suppliers allocate priority production resources to the market popular 4G/5G and next generation chip, feature phone business is facing great challenge for harder to secure 2G chips. This shortage has continued through the whole year of 2021; the impact on feature phone shipment is foreseeable. The Group is taking actions to diverse business risks by expand into other product categories other than mobile phone, especially with the downstream in the feature phone demand.

Prolonged supply chain disruptions can severely impact market sentiment by instigating fear about persistent inflation and apprehension about supply chain resilience and sustainability. COVID-19 exposed a structural vulnerability in modern global supply chains that threatened to dismantle the very architecture that has sustained them over the previous half-century. The Just-in-Time model hinges on a harmonious dance between production, shipping, and stable average demand, but when the music stops, a cascading domino-effect of supply chain chaos takes its place. As lockdowns have lifted, there is a skyrocketing of demand for consumer products as economies began to recover. This is what happened when COVID-19 grinded manufacturing to a halt in key export markets, and lockdown-induced impacts doubled shipping times and caused acute labour shortages and supply chains that were disrupted during the global health crisis are still facing huge challenges and are struggling to bounce back. This has led to chaos for the manufacturers and distributors of goods who cannot produce or supply as much as they did pre-pandemic for a variety of reasons, including abovementioned worker shortages and a lack of key components and raw materials.

The recovery of the smartphone business will be a challenge in the coming quarters with the uncertainty of end demand, the continued outbreak of new variant of coronavirus infections and the supply chain disruption. 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 impacts of the COVID-19 and supply chain disruption on the Group’s financial or operational performance. The ultimate size of the impact of the COVID-19 pandemic and component shortage on the Group’s business and its duration and severity 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 prioritisation 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 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 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 and has been one of the world's fastest growing emerging markets in the past decade, boosted by strong foreign direct investment inflows into its manufacturing sector. The development of Vietnam over the last 30 years has been remarkable. As per statistics, between 2002 and 2018, GDP per capita is increased by 2.7 times reaching over US$2,700 in 2019 and the pace of economic growth slightly exceeded 7% in both 2018 and 2019. Rapid growth of manufacturing exports and large new inflows of foreign direct investment have been important growth drivers for Vietnam, notably driven by rapid expansion in the textiles and electronics sectors. As Vietnam's economy is deeply integrated with the global economy, it has been hit by the ongoing COVID-19 pandemic posed downside risks to Vietnam's economy, Vietnam was one of the most resilient economies in the Asia-Pacific region to the shockwaves from the global COVID-19 pandemic during 2020. However, after considerable success during 2020 in containing daily new domestic COVID-19 cases to low levels, the situation has deteriorated in May and June 2021, with a significant pickup in reported daily new cases which has created risks to the near-term outlook and led to a sharp decline in business conditions for manufacturers. Output and new orders both decreased at the sharpest rates since the first outbreak of the pandemic in early-2020, while firms scaled back their employment and purchasing activity accordingly. The pandemic also impacted supply chains, resulting in a near-record lengthening of delivery times. With COVID-19 vaccination rates still remaining very low as a share of the total population, Vietnam remains vulnerable to a rising and protracted COVID-19 wave which leaves the nation vulnerable to further rises in daily COVID-19 cases until vaccination levels increase substantially. Only 3.3% of the total population had received a first vaccination by 27 June 2021, while the fully vaccinated share was extremely low, at just 0.2% of the population.

As a result of the rising COVID-19 wave, the government authorities have put in place strict lockdown restrictions for a wide range of activities, including on public transport and public gatherings, as well as non-essential business activities and temporary company closures leading to sharp reductions in both output and new orders during June. Due to the strict COVID-19 preventive measures from government, the life in Vietnam is then back to normal gradually. Again by end of October, the COVID-19 was under control by strict government regulation and higher vaccination rate. A report from Vietnam's Ministry of Planning and Investment showing, as of June 2021, total newly registered and paid in capital by foreign investors reached US$15.2 billion equal to 97.4% compared to the same period last year. Out of 18 sectors of FDI, manufacturing and processing leading with US$6.98 billion and accounting 45.7% of total investment capital. Vietnam is experiencing a 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.

Vietnam has had a positive 2021 start with its COVID-19 prevention, the business opportunities arise due to Vietnam's geopolitical advantage and especially the U.S.-Sino trade war. The Group's Vietnam site — Fushan Technology (Vietnam) Limited Liability Company ("Fushan") also experienced the COVID-19 turbulence which impacted across the globe. But Fushan managed well by strictly following & implementing the COVID-19 preventive measures issued by the Government of Vietnam. During April to May 2021, Vietnam experienced abnormal increases in COVID-19 cases (termed as fourth wave in Vietnam), especially in the manufacturing hubs like Bac Ninh, Bac Giang & Ho Chi Minh city. This wave also impacted Fushan badly, 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, Fushan implemented "isolated production" which continued for whole month. During "isolated production", the factory has arranged stay inside factory for its employees instead of daily commute and created a safe bubble against COVID-19 pandemic. A total of 2,800 employees of different level stayed in factory to support the production directly and remaining employees "Worked From Home". By end of June 2021 the situation was better and isolated production was reduced to just 500 employees, but again in September 2021, another large scale isolated production was set up due to nearby area COVID-19 outbreak and further lock down. Fushan management, Emergency Response Team (ERT) and employees were well-coordinated on all COVID-19 related actions. As a result, there were zero COVID-19 positive case reported in Fushan till October 2021, from the day of first COVID-19 case reported in Vietnam. In November 2021, Fushan reported first COVID-19 case and it was able to contain well, but there were on some more cases started reporting inside Fushan even with all actions in place. The major reason for this outbreak was the sharp increase of COVID-19 cases in northern Vietnam cities especially in Hanoi and Bac Ninh as a result of the removal of previously implemented strict lock down restrictions and government new stand of "live with virus" strategy. The new strategy could be because of the high vaccination rate achieved by that time and also the learnings from the southern provinces of Vietnam, where the COVID-19 cases peaked during first half of 2021 are now at its lowest level with normal life is back. As this strategy made a surge in COVID-19 cases everywhere and Fushan's lone actions were not enough to stop this. As normal practice, during this time also Fushan has been working with government agencies and following their guidelines strictly to reduce the impact. Fushan is doing regular Antigen and RT-PCR tests for its employees and also supporting them with personal protection kits. The current COVID-19 surge clubbed with long holiday seasons created some unprecedented labor shortage in Fushan. There are courses of actions in place — for example, bonus for full week attendance, full salary for COVID-19 infected people, welcome back plan for the recovered employees, work from home, over time option for lunar new year (Tet) holiday etc. Also human resource and production department has established a communication channel with each and every employee to understand their difficulties and providing them the needed support. Fushan management has full confidence that all these actions along with fresh employee recruitment can overcome this situation in coming days. Apart from this, the fast paced booster vaccination administration could bring more confidence in employees to return to work. As of now 80.4% of total Vietnamese population are vaccinated with at least one dose and 70.3% with full two dose. Whereas most of northern provinces including Bac Ninh, Hanoi and all nearby provinces have achieved 100% of full two doses of vaccination. Currently booster dose of vaccination is started distributing across the country, especially in northern provinces. As of now, 93.8% and 30.66% of Fushan population is vaccinated with full two dose and the additional booster dose respectively. Fushan is closely working with government agencies to have the regular vaccination campaign to protect its employees and also to ensure business continuity.

There are many indirect impact also induced by COVID-19 in Vietnam market. As COVID-19 prolonged, human resource shortage started impacting many industries, Fushan was not an exemption. There observed some reverse migration trend from cities to country sides in Vietnam especially after fourth COVID-19 wave. Apart from the isolated stay-production program, Fushan introduced special referral bonus, engaged with more human resource outsourcing agencies and also used government channels, where they helped to publish the resources requirements in many provinces through government channels. All these multi-channel actions helped a great extend to counter the sudden human resource shortage. There were lots of demand & supply fluctuation experienced due to sudden closure of many markets as a result of COVID-19 and related government enforcement. Global chipset shortage led to many de-commitments, logistic cost increased. China-Vietnam boarder congestion etc. are some other challenges which Fushan faced during these days. Fushan utilised its flexible manufacturing options, collaborated with other internal teams including sourcing and also external government agencies to smoothen out these challenges. All these experiences are giving an edge to Fushan team to face any adverse challenges in the upcoming days of business growth.

Fushan already established a good reputation among its employees and its aspiring candidates in Vietnam. Fushan bagged two times the most prestigious human resource awards (Vietnam HR award-2018 and Best Company to work for Asia award-2020) in Vietnam. Fushan still continue to be the great employee oriented culture with lot of employee welfare and engagement activities like, team building, year-end party, children day celebration, women's day contest, gifts on selected festival etc.. Fushan is providing opportunity to all their employee's children who is studying in university to have factory experience under "Dream on the Wing" program. Fushan provided many encouragement activities during the COVID-19 time including financial benefit. Fushan built an own gym & created an all book library for the recreational activities of their employees. Also Fushan's L&D team has actively conducting many cultural and employee engagement activities. "Leader's talk" is one such activity, where the leaders get a chance to talk their vision and employees get a chance to clarify their doubts, not only business but other subjects as well. Monthly "All Hands Meeting" is where Fushan share its operation and business update with its employees to ensure the transparency and also to align across the factory.

More and more businesses especially electronics manufacturing started flowing to Vietnam. This is giving ample opportunities to Fushan to diverse its business with multiple customer and products. Fushan has started its business diversification early 2019 from traditional mobile phone manufacturing to more sophisticated smartphone, smart speaker and IoT modules. For further diversification and utilising the new opportunities, Fushan expanded its business licenses and acquired relevant process certifications and invested more to skill up its already experienced workforce. It also further plans to diversify customer focus and elevates the operation efficiency to increase the competitiveness to next level. More and more customers are approaching Fushan with range products. Some of them are home appliances, feature and smart phones, car accessories, EV projects, tablets etc.. Fushan recently started its own sales operation to capture the local and international business opportunities. After 2.5 months of its operation, the responses are very promising and the entire Fushan team is working hard to transform these opportunities to business reality.

India Site

The India smartphone market showed high resilience in 2021 and exited the year with highest-ever shipments of 169 million units, according to market research firm Counterpoint Research. The market grew 11% year-on-year in 2021 even as the year witnessed a more virulent second wave of COVID-19, and the resulting supply chain disruptions coupled with price increases due to the ongoing component shortages. The shipments were driven by increased adoption and demand for 5G smartphones, which contributed 19% to the overall shipments, representing almost six-fold growth over 2020. The price of entry-level 5G devices came down by 40% in the last six months. The increase in affordability of 5G devices has been a key reason for high 5G smartphone adoption. Going forward, the Indian market is expected to grow by double digits with a healthy contribution of the mid-to-high end 5G smartphones.

Even though India was attracting all the global attention for the worst virus outbreak, the pandemic did little to dent the confidence of overseas investors who kept betting on a strong rebound. India was 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). As per the updated World Economic Outlook report released on 25 January 2022, the International Monetary Fund (IMF) has raised its forecast for growth in India's gross domestic product (GDP) in FY23 by 50 basis points (bps) to 9%. India's GDP growth forecast for FY24 was also raised by 50 basis points to 7.1%. Explaining the upward revision, the IMF said it expects an improvement in India's credit growth — which would boost consumption and investment — and "better-than-anticipated performance of the financial sector". The hike in the forecast for India for the next financial year was accompanied by a downward revision in the growth estimate for 2022 to 9%. In October 2021, the IMF had forecast that India's economy would grow by 9.5% in 2022. The IMF said its estimate for India's GDP growth in 2022 captures the impact of the Omicron variant of the coronavirus on economic activity. While India's fortunes seem to have improved, the global growth forecast for 2022 was lowered by 50 basis points to 4.4%. However, the global growth forecast for 2023 was raised by 20 basis points to 3.8%, although this "largely reflects a mechanical pickup after current drags on growth dissipate in the second half of 2022".

The Reserve Bank of India, in its annual report released on 27 May 2021, stated that Indian economy was 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. The central bank, in the report 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."

In India, the second wave of COVID-19 peaked in the first week of May 2021 when the new daily cases rose to 400,000. From the end of May 2021, there was a steady decline in new cases and deaths per day from 150,000 and 3,000 to 40,000 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 by December 2021, the new daily cases dropped to 5000 but since January 2022 the numbers have risen steadily because of the spread of the highly transmissible COVID-19 variant-Omicron. On 21 January 2022, the new daily cases reached 337,000 and have since been declining.

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. Unrestricted supply of nitrogen was ensured. 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 a 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 actions were undertaken. Antigen testing was conducted before boarding of the new employees or those returning to work after long gap. Regular temperature screening was performed before boarding of buses, entry into dorms and factory by EHS Team. Periodical sanitization was done in all areas of factory, dorms, canteen and vehicles. Masks were mandatorily distributed to all those who are entering into buses, factories and dorms. Awareness training was given to all workers including drivers, housekeeping, security, wardens, contractors, vendors etc.. Constant supervision and monitoring were carried out within factory and dorm premises and buses to ensure compliance with COVID-19 protocols. 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 at its peak, 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.

The lockdowns in India and in other countries, specifically China, continued to cause major supply chain disruptions in 2021, including shortages of materials, components and other inputs and, to a smaller extent, integrated chipsets. These shortages were exacerbated by the unprecedented demand for smartphones, tablets and personal computers necessitated by home-working and the upsurge in e-commerce, and the large amount of stockpiling of semiconductors and integrated chipsets by OEMs in various sectors. While it is difficult to assign a particular value on the loss due to component shortage, the Group's India factory did lose significant production due to chipset shortages in 2021 that pushed up the cost of sourcing and production as lines remained idle for large periods.

The Group's aim is to maintain our position as the leading EMS provider in India and to become a leader in the country's ODM market in the near term, with the following as the key pillars in our growth strategy:

- expand business in new, high-growth industries;
- provide vertically integrated "one-stop" EMS and ODM solutions to OEM customers;
- enhance R&D capabilities; and
- commence exports to attractive growth markets.

The Group intends to deepen its relationships with its existing customers by providing them with a wider range of vertically integrated service offerings, and integrating innovative solutions into their design processes and product development. For example, it has started to offer mechanics services to one of its key customers, in addition to its manufacturing and assembly services, and will soon start to give service offerings such as product design and development along with component manufacturing and sourcing. The Group further intends to use its EMS experience and the ODM capabilities to diversify into new high growth industries such as mechanics, electric vehicles, televisions, hearables, telecom and networking products, and IT hardware.

The Group intends to invest further in its R&D capabilities, which are integral to its vertical integration strategy and its ability to offer OEMs a broad range of services across the ODM value chain. It is focusing on building its design and product development capabilities, which will enable it to become involved at an early stage in our OEM customers' product lifecycle and position it to capture other parts of the ODM value chain, such as component manufacturing and sourcing, assurance and testing services and after-sales services.

While India constitutes the largest and most attractive market for its future growth, the Group is exploring opportunities to export its products to overseas markets. These include the Middle East and Africa, where the penetration of mobile phones and smart phones is currently much lower than the global average. In furtherance of its export strategy, it has already started exporting Nokia-branded feature phones to the Middle East for its customer HMD. It is also exploring opportunities to collaborate with mobile operators in Europe and the United States, with a view to exporting mobile phones and hearables that they can offer to their network customers.

The Group will continue to provide its workforce with training and development programmes, including external vocational and skills training. Health and safety are an integral part of its promise to its workforce; it will continue to adhere to the required standards of safety in our factories (including ISO 45001:2018 certification for occupational health and safety management systems) and support during crises such as the ongoing COVID-19 pandemic. As part of its environmental, social and governance ("ESG") initiatives, it will continue to recruit and promote women in our workforce. Its environmental initiatives include the integration of sustainable practices in our business by building green capabilities in our campuses, managing water consumption and monitoring our CO2 emissions. It will continue to adhere to the required standards of environmental compliance in our operations (including ISO 14001:2015 certification for environmental compliance management systems), and strive to ensure ESG adherence across its business and supply chains.

On 21 December 2021, the Group filed papers with SEBI (Securities and Exchange Board of India) to raise around Indian Rupees ("INR") 50 billion via an IPO. The IPO will comprise of a fresh issue component of INR 25 billion and an OFS (Offer for Sale component) of INR 25 billion. It plans to use the net IPO proceeds to fund capital expenditure requirements towards up-gradation and expansion of existing campuses, invest in subsidiary to finance its capital expenditure requirements, fund working capital requirements of the Group; and general corporate purposes.

Growth outlook for the Indian electronics industry in 2022 is positive, primarily because market penetration for many electronics products remains very low compared to the global average. Factors such as stable growth outlook for the economy, Digital India programme, rising disposable incomes, changing lifestyles, emerging work from home culture, expansion of organized retails to tier 2 and tier 3 cities, improving electricity and internet infrastructure, and better logistics infrastructure will provide additional impetus to the industry. With changing geo-political landscape, the OEM customer will remain interested in moving the electronics production to the other countries having competitive price, quality and receptiveness. Atmanirbhar Bharat Abhiyaan, or Self-reliant India Campaign, launched in May 2020, with larger focus on the CAPEX and R&D will continue to give strong push to the domestic marketplace, which is very significant to India's economic growth. In the next two-three years, high real GDP growth rates will be rare in majority of the economies as they gradually recover from the impact of the COVID-19 pandemic.

In 2021, domestic electronics production is estimated to be US$67 billion which includes domestically manufactured electronics components worth US$8 billion and imported components worth US$15 billion. The remaining market, after subtracting the cost of the components and other expenses (logistics, packaging, administrative expenses, etc.), represents the addressable business opportunities for EMS companies in India. The total addressable EMS market in India was valued at INR2,654 billion in 2021 and is expected to grow to INR3,458 billion in 2022 with a rate of 30.3%.

However, top threats in the form of supply chain disruptions especially shortage of key components such as chipsets, subsequent waves of COVID-19, predatory pricing by new competitors and talent attrition will continue to linger in 2022.

Key Relationships with Suppliers

Supply chain performance is always a prime measurement in determining operation execution excellence within the Group. In order to address customers' requirements to time-to-market, volume-to-market and time-to-volume, our manufacturing operations are dependent on timely purchase of components and other raw materials and optimal inventory management. To secure adequate supply of key parts, sustain strong bargaining power, and sourcing high quality material with competitive pricing in a timely manner without being restrained by some major suppliers, procurement team of the Group sources components and other needed materials required for conducting businesses from over 3,000 reputable and qualified suppliers, of whom majority of them have had long and stable relationship with the Group. Maintaining efficient goods delivery with quality material at best in class competitive pricing while without being restrained by few key sources has always been a daily challenge to the team. While material cost management is clearly of critical importance, from time to time, the Group takes necessary actions in keeping inventory, open purchase order and working capital in check and maintain adequate cash reserve to warrant operation sustainability. Considering unprecedented challenges presented by unbounded volatility over the past year, rise and fall of the business has practically been dictated by supply chain community, by its deliverable. COVID-19, U.S.-China tension, component supply challenge, inflation pressure and continuing logistics congestion clearly stand out currently as the determinants in a complex business environment.

Vendors delivering basic materials and suppliers supplying component including chipsets, memory, electronic parts, display module, camera module, battery, connectors, enclosure, and packaging material together make up the supply partners of the Group. They are selected through a clear set of requirements developed over long supply management history, specifically, technical requirements, quality and reliability standard, price competitiveness, technical competence, innovation and engineering capacity, logistics requirement, service assessment, commercial terms, customers' requirement, capacity, reputation in the industry and financial strength are the inclusive elements and vendors are then evaluated and qualified through qualification processes defined within the Group. There are also on-going measurement of performance (including quality and on-time-delivery and service) of suppliers. Components may not always be readily available at times of supply constraint, and we may not be able to obtain them in a timely manner in meeting production schedules and this explains why it is difficult to estimate future order books and actual shipment volume.

Purchases made to top five supplier in spend accounted for approximately 56.1% of total purchases made by the Group in the current period. Whilst the Group could potentially engage with many suppliers in the market, over the years the Group has consolidated its purchases with major suppliers due to ease of procurement processing, supply continuity and favorable commercial terms (especially in pricing) offered by them. All top five suppliers have had long term and well-developed business partnership with the Group over the last five years. These key suppliers are not bound by contract nor are asked to reserve manufacturing capacity, or, to produce or guarantee minimum supply to the Group, at which, liability exposure to the Group is well kept in control. Given having a clear strategy in securing competitive pricing through purchase consolidation with handful of key suppliers, supply disruption risk to the Group in its ODM business can be contained since potential supply delay or shortage have been considered while safety buffers are being planned on top of demands. Customers are informed, are aware of such continuing challenge, contingencies are planned and will be put in place when required. Additionally, good number of alternative sources available in the market are always kept as fallback for the Group to work with when it is needed. Apart from chipset and memory, the Group expects to experience minimal impact from unforeseen market fluctuations such as significant material cost increase or supply delay should the Group decide to engage with a new supplier. Capacity in practicing best in class material pricing in the industry clearly exhibits procurement proficiency and commercial strength of the Group, it is a core competence built upon benefits gained from scale of its operations, bulk volume in purchase, and continuous close interaction and networking with the market. 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 12.95% of the Group's total purchases in the current period.

Recent logistics logjam at major seaports around the world came mainly as result of COVID-19 pandemic. Lockdown took place in many countries and regions earlier, put people's life very much coming to a halt, retail businesses, stores, shops, and restaurants on high street were devastated by the situation yet, with some very good reasons, to the contrary, online businesses made record sales in recent history at the same period. Manufacturers located in Asia have been working around the clock in dealing with continuing order inflow from U.S. and Europe since fourth quarter last year. Problem arose from the fact that pandemic lockdown and additional safety measures undercut cargo handling capacity dramatically in these transportation hubs. First sign of problem came when people started to notice there weren't enough containers available to be dispatched to loading docks at this side of the ocean, while at the other end, tens of thousands of containers were piling up at the wharf, waiting to be delivered, and there weren't enough containers to be shipped back to Asia, or the whole trip around took many months. Then, one accident caught the whole world noticed, one mega container ship ran aground while passing through Suez Canal and turned side way, due to sheer size of the ship, the canal was blocked for about two weeks and the world shook up. Not to mention the more visible freight charge rising from day to day and record-breaking profit reported by almost every shipping company in the world. Logistics service clearly is one embedded building block in a complete supply chain, both in-bound and out-bound, capacity constrained at any one location causes similar impact as physical material supply constraint does. And similarly, adjustments have already begun, fresh new containers were ordered, bigger container ships were launched, and new ships were ordered, all aiming to rectify current situation where hundreds of container ships mooring outside of U.S. west coast as an example.

After a year-long journey of 2021, by now it is fair to conclude, if nothing more, it has not failed in providing good number of challenges to the Group and business community around the globe. Signs of supply tightness could already be seen in third quarter of 2020, they were isolated in limited number of components, it was in fourth quarter last year situation really started to turn south, even we remained hopeful, things went worse from first quarter of 2021 and it was clear by then it will go all the way, spilled-over from semiconductor to non-semiconductor sectors picked up from second quarter 2021, supply difficulty was being reported from each and every commodity, and, price rise pressure came right after. Similar to most in the mobile phone business, the Group learnt the hard way over time in 2021 and 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, unexpected surge of work from home related electronic devices, autonomous driving vehicles and EVs, together they have 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.

From beginning of third quarter 2021, mobile handset demand went softer than forecasted earlier, big spenders (leading handset brands) slowed down in pulling material. Signs of easing off in supply started to emerge in some commodities, those with short adjustment cycle was beginning to deliver its result in the market. Fourth quarter pricing started to level off and even dip in some commodities, yet key components upped their pricing once again in the same period. One intriguing observation to be noted was on top of typical momentum dictated by demand and supply, as year is ending, inventory carry became a real concern to many, at which, additional inventory amassed from non-square kit material left in the warehouse raised huge worry, material pull slowed down, and it clearly helped relieving demand pull pressure in fourth quarter market. A good example of adjustment cycle showing its might, though clearly at different pace in different commodity. COVID-19 pandemic and U.S.-China trade friction have been and remains to be the underlying market disruptor for volatilities and breakdowns everyone has been experiencing in this industry and many others. True nature of the two forces warranties scale of consequences is never seen in recent history and following adjustment cycle will take years to complete. And we are just about halfway. A reminder to be kept in mind, a rather unfortunate situation will continue to be played out to the World, with no given option, disruptions at global scale will continue, and they can only to be fixed one by one after each corresponding adjustment is completed.

Semiconductor continues to stay at top of supply chain challenge. Even certain sub-tier commodities had begun to ease off, what has been the most challenging remains to be challenging as ever if not more, namely main chipset supply. Typical second half seasonality in consumer electronics ensures a continuation of the challenge. Simple fact is semiconductor supply remains to be far short of demand. Capacity competition has long been elevated beyond handset business, it is now a competing game among some businesses, to name a few, like consumer electronics, PC, mobile handset, automotive and AI cloud computing are all competing for same foundry capacity; thus, adjustment cycle will take some longer time to complete. Over time, through the magic of market adjustment, it will become clear which product sector, under what type of fabrication process node technology, demand and supply got tangled up and resolution can take 12 months and longer. While there are other sectors where resolutions had been in place and improvements could start to be seen in fourth quarter. Supply in some smaller size standard components and certain passives are still tight yet practically no longer in constraint. Electro-mechanics and mechanics are basically custom design/made, sub-tier material supply and their pricing never went as bad as those in semiconductor sector but was earlier a real concern. They managed to move from high risk to manageable in fourth quarter. Power outage and ration took place from late September to early October in certain regions of China sent a shock wave through supply chain community, that too eased off over time as no further stepped-up measures was taken. At high level, supply of some commodities improved in the fourth quarter, and further improvement can be expected in first half of 2022. Nonetheless, other half of the challenge is looming, the pricing. Price rise pressure never dissipated as supply was improved. Sign of inflation is very visible. It will be next hurdle on top of supply constraint in coming quarters. We are amidst of the business and industry adjustment cycles. Material constraints may obviously impact the Group's supply to end customers and therefore its revenue, and rising component pricing (cost to the Group) will then put additional pressure on the Group's margin over time. More specifically, impact comes in two folded, at one end, from lower shipment number, lower revenue, higher cost and then margin squeeze; at the other, if product cannot be shipped, out of missing components, non-square kit material left can fast turn into excessive inventory carry. Started from second quarter, Nokia Branded feature phone business, some smartphone business and more recent North America carrier products have been impacted. Businesses of some other customers have been experiencing similar circumstances; fortunately, they are operated under EMS mode, at which, supply continuation is generally a much bigger challenge.

To reduce the impact of component shortage, procurement team employed different tactics and methods and tools. Typical current and recent pricing and supply requirements are communicated and negotiated with designated sources on a quarterly basis, session for next coming quarter may start from third week entering into a new quarter and last till 2 weeks before quarter end, i.e. if shortage/disruption, by supply visibility, they will basically be dealt with one quarter or longer before they may actually occur later in time; in some cases, in extreme situation, unforeseen disruptions may come up in very short notice, and those can only be resolved with intense escalation and follow-up review with the suppliers or through near term allocation adjustment. Planning and maintaining visibility are the basics in securing supply, near term forecast is offering to suppliers on weekly basis, longer term numbers are shared by sourcing team, planning and visibility are built on top of demand forecasting confirmation provided by suppliers. Again, communication and negotiation happening in each quarter are tools in determining pricing and supply in coming quarters, bargain/tradeoff are being made well before actual delivery confirm is given, usual preferential supply strategy, in technology/supply/price/service, is always the guide in making decision, yet, as what has happened in the past 12 months, obviously supply is top concern, so, following actions were taken, (1) leverage relationship with key sources, request more supply; (2) explore additional options and qualify as many and as quick new sources as possible; (3) accept higher pricing in securing supply; (4) show commitment by offering long order coverage; and (5) seek supply from open market when necessary.

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 are all visible main events that have played out over the course of 2021, each and every one of them has easily made its mark in the Group's business and quickly pass down the impact along the demand/supply chain and make it difficult to forecast order book with reasonable reliability. 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.

For details, please refer to the "The Group's Value Chain" section of the Company's separate 2021 environmental, social and governance report as issued and published simultaneously upon issuance and publication of the annual report incorporating this report of the directors.

In response to the potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has its diversified customer and supplier base, and has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. For details, please refer to the "Accountability and Audit" section of the Company's 2021 corporate governance report, which forms part of the annual report incorporating this report of the directors. 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 competencies. 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. Furthermore, the COVID-19 crisis has resulted in a significant increase in online learning. Much of the training that had started as face-to-face in classroom environments has been pursued online. 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 e-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, optimise 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 the way of attracting and retaining employee method for its employees in order to have enough workforce with high skills to produce high-tech products. As an international brand name manufacturer, Hanoi site has now committed to, applied for and complied with the highest standards of corporate social responsibilities (CSR), business ethics, environment and health, such as Hanoi site adhering to fulfill SA 8000 standard, which is certified by international third party and in effective. 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 with trade union, 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 decent 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 second quarter of 2021, our Hanoi site implemented "Isolated Production" which was required by local government to prevent the spread of COVID-19 in the society. It was like bio-secure bubble without outside people access (avoid contact with other people or participation in society). Furthermore, Hanoi site provided additional life allowance, besides, three meals a day and other necessities provided to employees so they were comfortable with life inside the campus. With all the multi-measures and efforts of all employees, Hanoi site had been maintaining zero infection and keeping safe, smooth and continuous operation.

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 programs. 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.

India's COVID-19 prevention processes helped to contain the virus spread and India site continues the endeavor 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. COVID-19 task force 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 continues to help with the vaccination drives that have been planned at our sites. India site has made mandatory for its new employees to produce vaccination certificate during the time of joining. The site continues to do regular temperature screening before employees boarding into buses, in dormitories and in factory entrances, periodical sanitisation 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.

Regarding R&D capability which is central to the competitiveness of the Group, the Group has built up its core competence via establishing a global experienced R&D team with offices in PRC, Taiwan, India, and Vietnam to support its significant opportunities for business growth (such as new technology and materials, and new customers) by investing in R&D on top of its strong manufacturing and engineering capabilities to implement and execute the corresponding R&D requirements of the Group's customers. The Group has continued to devote resources to enhance R&D competence and strives to reinvent productivity to empower people and organisations to achieve an increased agility, streamline engineering processes, move faster and more efficiently, simplify its organisation, and remain lean and optimise its cost structure. By encouraging employees to bring up innovation at work, cooperating with customers on pioneer projects and supporting start-ups on manufacturing (or even with equity investments), the Group has successfully accumulated relevant experiences on procurement, value and design engineering and product development, quality management, production management, repair services, and sales and marketing competence. All employees took on every challenge unreservedly and confronted every frustration fearlessly.

As at 31 December 2021, the Group had a total of 73,993 (31 December 2020: 70,381) employees. Total staff costs incurred during the current period amounted to US$444 million (full year 2020 US$476 million), and the year-on-year decrease was mainly due to the optimisation and rightsizing of staff force according to business needs. In view of the Group's changes in product portfolio and excess capacity, the Group has refined its approach and taken necessary steps with a view to becoming an asset-light and lean corporate group, and accordingly, has to 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 also 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. Employee retention is always a big challenge for all corporation. In a highly competitive global economy and as product development and manufacture are both complicated process and require professional and experts, retaining of qualified and skilled key employees is essential for the sustainable competitive advantage. By offering competitive compensation and benefits, creating favorable working environment, broader customer reach, bigger scale in resources, training and job rotation coupling with better career prospect across various products and programs and business lines are undertaken actions for the Group to increase the employee loyalty and retention rate. In particular, the Company has adopted the Share Scheme and the Share Option Scheme, respectively, pursuant to which (among other things) the Board (or its duly authorised officer(s) or delegate(s)) may, at its/their absolute discretion, offer share awards or share options (as the case may be) to the eligible employees of the Group and other eligible persons upon and subject to the respective terms and conditions set out therein. The Share Option Scheme complies with the requirements of

Chapter 17 of the Listing Rules. 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 the subsidiary share option schemes. For details, please refer to the Company's circular as issued and published on 20 April 2021 and the Company's announcements dated 28 May 2021 and 23 December 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 2021 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

Review of Results and Operations

Financial Performance

The financial KPIs (Key Performance Indicators) include year-on-year changes in sales, gross margins, net margin and return on equity. For peer analysis, as peers may have different business and growth strategies, history, business models (like outsourcing or insourcing or co-sourcing) 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 challenging conditions that the Group has faced since late 2017 have continued into 2021. In addition, the lingering and lasting of COVID-19 and resurgences and infection outbreaks and related restrictions and lockdowns and containment measures, reduced discretionary spending, labor unavailability in different countries have continued to adversely impact component supply and delivery lead time and prices, global supply chains and length of supply visibility and all these contributed to the Group's variable production in its factories and order fulfilment and affected the recovery of the sales turnover of the Group and its operating results negatively and our customers and all these will continue to be a drag on business operations and quick recovery of the customers and the Group. 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 and asset light which can help reduce overheads in the long run. In particular, component supply constraints and disruptions and tightness have continued to adversely impact the Group's supply and shipment to its customers and ultimately its revenue, and rising component pricing (and hence the Group's costs) has continued to put more pressure on the Group's margins in respect of some customers over time as component cost increase cannot be all passed through to customers. These negative factors and risks are currently expected to potentially continue into at least the first half of 2022. Comparing with 2020, there is year-on-year improvement in gross profit and gross margin and net profit and net margin as there were better yield and operational efficiency from reduced COVID-19 related production interruptions and also generally reduced cost of sales and operating expenses as a result of continuing tighter control over costs and overheads and ongoing asset light activities including rightsizing and restructuring relating to assets and workforce starting from 2020. With reference to the Company's joint venture with Stellantis relating to automotive smart cockpit and assistant systems, an after tax gain of US$34.9 million was derived by the Group upon completion of the transaction. As a result, the Group recognized a consolidated revenue of US$8,583 million, representing a decrease of US$352 million or 3.9% when compared to US$8,935 million for the same period last year. Net profit for the current period was US$56.4 million, when compared to a net loss of US$173.8 million for the same period last year.

The Group's 2021 performance 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 and the surplus capacity in the market. But as mentioned above, there were better yield and operational efficiency from reduced COVID-19 related production interruptions and also generally reduced cost of sales and operating expenses as a result of continuing tighter control over costs and overheads and ongoing asset light activities including rightsizing and restructuring relating to assets and workforce starting from 2020. A majority of the market participants face challenges with respect to the operating margin. The aspiration level of Chinese workers has increased and they are focusing on high-tech jobs, leaving gaps in the low end of manufacturing value chain. This has led to scarcity of the labour and higher cost due to lack of availability of the manpower. The average cost of manufacturing labour in China is higher than neighboring countries like India and Vietnam and this makes manufacturers to move out of China. In addition, 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 and casing capability in India and increasing local sourcing in India, and maintaining Nokia-branded feature phones business as key supplier of feature phones to HMD. But gross margin of system assembly business is really very low and erosion pressure is extremely high and this now becomes an industry norm. In the EMS industry, profit margins are relatively low as component prices are on an average and key focus lies on the labour costs. The markets with fastest-growing smartphone demand are mostly developing countries, such as India and Africa 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 curtail non-essential and discretionary spending and keep more cash. 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.

(2) As explained above, 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 has extended to 2021. This key customer has remained the key overhang in 2021 as U.S. sanctions choked its supply chain even when 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 in 2020 and incurred significant restructuring costs 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. The Group keeps seeking other business opportunities both in China and India and other locations like the States 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.

(3) The pandemic has continued to affect the recovery of the Group's customers and operations and sales revenue of the Group in 2021 and this directly affects the Group's asset utilisation and the ability to benefit from economies of scale and the depreciation charges of the Group's low utilised properties and equipment are still required to be recognised while they were temporarily idle. But thanks to the rightsizing/restructuring carried out in 2020, the utilisation has been improved gradually in 2021 when the market was picking up momentum after mass COVID-19 vaccination programme carried in different countries and hopefully gradual relaxation of various kinds of restrictions 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 China sites have improved dramatically from the third quarter of 2020 and there were no such production interruptions in China due to pandemic control protocols in 2021 and the overall yields and efficiency improved in 2021. 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 monitor and finance team has devoted extra effort on the collection works.

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. The COVID-19 pandemic has disrupted the manufacturing supply chain in India and curtailed the commodity demand. 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 minimise 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 minimise the impact to production interruption. 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.

(4) Chip supply shortage has further escalated globally in 2021 after the COVID-19 pandemic, as major companies across industries failed to meet the rising demand for electronic goods and components. Market is witnessing and, without an option, experiencing major disruptions at global scale within a relatively narrow time window. Namely, challenges like continuing U.S. China conflict tension, low vaccination coverage in some part of the world, local COVID-19 eruptions caused by new virus variants in the regions, congestion in major freight routes, a lack of new investment in certain chip production capacity, rising demand in autonomous driving vehicles and EVs, together they have created unprecedented complexity to the following adjustment cycle. Supply chains around the world need to be given time to react and adjust. Supply of finished electronic products and components necessary for local manufacturing has been held up due to prolonged congestion at ports and availability of container. Recent logistics logjam at major seaports around the world came mainly as result of COVID-19. Lockdown took place in countries and regions earlier put people's life to a halt. Retail businesses, stores, shops, and restaurants on high street were devastated, yet, with some very good reasons, to the contrary, online businesses made record sales in recent history at the same period. Manufacturers located in Asia have been working around the clock in trying to deal with continuing order inflow coming from customers in U.S. and Europe since the fourth quarter of 2020. Problem arose from the fact that COVID-19 lockdown and additional safety measures undercut cargo handling capacity drastically in these shipping hubs. First sign of problem came when people started to notice there were not enough containers available to be dispatched to loading docks at this side of the ocean, while tens of thousands of containers were piling up at the wharf on the other side, waiting to be delivered. There were not enough containers to be shipped back to Asia, or the whole trip around took many more months. Needless to mention the more visible freight charge was rising from day to day and record-breaking profit were reported by almost every shipping company in the business. Both in-bound and out-bound logistics clearly are building blocks in a complete supply chain. Capacity logjam at any one location will cause similar impact as physical material supply constraint does.

The Group has been sailing amidst the business and industry adjustment cycles as these cycles are forth moving. The Group began to experience significant price rise from almost all semiconductor component commodities and later to find similar price increase in non-semiconductor commodities in second quarter 2021, it became more of an "inflation like" price rise in all commodities. Material constraints may obviously impact the Group's supply to end customers and therefore its revenue, and rising component pricing will then add additional pressure on its margin over time as cost increase can't be readily passed through to the customers. More specifically, impact comes in two folded, at one end, lower shipment number, lower revenue, higher cost and then it ends up with margin squeeze; at the other, if product failed to be shipped, out of missing certain components, non-square kit material left can fast turn into excessive inventory carry. Some of our businesses to some customers have been affected since second quarter 2021. To some other customers who have been in similar circumstances; given their businesses are operated under EMS mode, at which, supply continuity is a bigger challenge to the Group over costing. Impact of component supply is more severe when customers' demands fluctuate significantly. Meeting such demand is dependent on supply continuity and optimal inventory carry. On this basis, it may not be feasible for the Group to reasonably and meaningfully provide a quantitative measurement of the COVID-19 and supply chain disruption impact to the Group. Ultimate impact of the COVID-19 and component supply constraint to the Group's business, its duration and severity will be dependent on following market development which can't be foreseen currently.

Supply of finished electronic products and components necessary for local manufacturing has been held up due to prolonged congestion at ports and availability of container. Recent logistics logjam at major seaports around the world came mainly as result of COVID-19. Lockdown took place in countries and regions earlier put people's life to a halt. Retail businesses, stores, shops, and restaurants on high street were devastated, yet, with some very good reasons, to the contrary, online businesses made record sales in recent history at the same period. Manufacturers located in Asia have been working around the clock in trying to deal with continuing order inflow coming from customers in U.S. and Europe since fourth quarter of 2020. Problem arose from the fact that COVID-19 lockdown and additional safety measures undercut cargo handling capacity drastically in these shipping hubs. First sign of problem came when people started to notice there were not enough containers available to be dispatched to loading docks at this side of the ocean, while tens of thousands of containers were piling up at the wharf on the other side, waiting to be delivered. There were not enough containers to be shipped back to Asia, or the whole trip around took many more months. Needless to mention the more visible freight charge was rising from day to day and record-breaking profit were reported by almost every shipping company in the business. Both in-bound and out-bound logistics clearly are building blocks in a complete supply chain. Capacity logjam at any one location will cause similar impact as physical material supply constraint does.

Due to above factors, gross profit for the current period was US$224.4 million, represented an increase of US$129.2 million gross profit from that for the same period last year. Gross margins for the current period was a profit of 2.6% and was better than 1.07% for the same period last year.

In 2021, with the continuous effort to becoming an asset-light corporate group, the Group impaired, disposed and wrote off various under-utilised/obsolete assets of US$19.1 million (2020: 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$11.7 million (2020: US$11.9 million) which affected the Group's 2021 final results. As the restructuring and rationalisation take time, in 2022, the Group will continue to incur some actual and potential costs, expenses and/or losses arising from the Group's ongoing efforts to rightsize and/or to restructure.

In addition, as mentioned above, on 31 December 2021, the Group ceased to have control over Mobile Drive Group it previously owned and which were then become jointly owned by the Group and Stellantis. The Group recognised on the Group's consolidated statement of profit or loss and other comprehensive income of a gain of approximately US$34.9 million (before taxation, if any), calculated by: (1) the difference upon Completion between the carrying amount of the assets and liabilities of the Mobile Drive Group, approximately US$4 million and the fair value of the Group's equity interest in the JV Co, approximately US$40 million; (2) the transaction costs directly attributable to the Transaction of approximately US$1.3 million upon completion of the Group's joint venture with Stellantis; and (3) the gain from reclassification of cumulative translation reserve of approximately US$0.2 million.

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 fulfill 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 which expenditures are expected to be funded by cash raised from the listing of the India entity in India Stock Exchange) 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 2022 progresses.

As a whole, there is a continuous need to reduce operating expenses, redundant assets and people and drive for better internal operational efficiency and excellence of manufacturing processes, testing processes, inventory and supply chain management, quality management and, 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$161.8 million, representing an increase of US$2.6 million from that for the same period last year. The Group has experienced a foreign exchange gain of US$2.4 million for the current period, compared with the Group foreign exchange loss of US$0.03 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 minimise impact generated by exchange rate volatility. Government subsidies for the current period were US$28.2 million (same period of 2020: US$56.8 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$294 million, compared to US$366 million for the same period last year. For selling expenses, there was a year-on-year decrease by US$1.6 million as payroll costs dropped after restructuring and partially offset with the effect of increase in shipping cost as the logistics costs were higher due to COVID-19 outbreak during the current period. For R&D expenses, there was a decrease by US$66.1 million as were incurred for low-ended handsets and there was a saving in payroll costs after the optimisation and rightsizing of staff force and also better cost control. For general and administrative ("G&A") expenses, there was no material fluctuation when compared to same period of last year. Severance payment associated with of rightsizing/restructuring activities to exit from less profitable or loss-making or under-performing operations was incurred and more performance bonus has been provided for staff retention purpose during the current period.

Interest expenses for the current period was US$8.9 million, compared to US$12.2 million for the same period of last year. The decrease was mainly due to year-on-year decline in bank loan interest rate and there is decrease 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 capital structure and interest costs, minimise other kinds of non-operating gains and losses (such as foreign exchange gains and losses and 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 gain attributable to owners of the Company for the current period was US$56.3 million, as compared to net loss attributable to the owners of the Company of US$173.9 million for the corresponding period last year. The net profit margin for the current period was 0.66%, as compared to the net loss margin of 1.95% 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 organisations 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, ROE representing the amount of net income returned as a percentage of shareholders' equity, which measures a company's profitability by revealing how successfully a company utilises the resources provided by its equity investors and the Company's accumulated profits in generating income was 2.6% , when compared with the ROE for the same period last year of 8.35% negative.

Income tax expenses during the current period was US$13.7 million, when compared to income tax expense of US$24.9 million for the same period of last year. The decreased in income tax expenses was mainly due to realisation of temporary difference on accelerated tax depreciation and utilisation of tax losses by certain profitable entities during the current period.

Basic profit per share for the current period was US0.7 cent.

Dividends

(i) 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 pandemic and U.S. ban and geo-political tensions and component shortage and price hikes and logjams 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 15 March 2022, the Board resolved not to recommend the payment of a final dividend for the current period.

(ii) On 22 December 2021, the Company announced that the Company proposed to spin-off and separately list BFIH, its Indian subsidiary which is the largest Electronics Manufacturing Services provider in India, on BSE and NSE, which are the two main stock exchanges in India. Terms defined in the announcement shall have the same meanings when used herein. The Company submitted an application to the Stock Exchange pursuant to Practice Note 15 in relation to the Proposed Spin-off and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off. On 21 December 2021, BFIH filed the DRHP with SEBI, BSE and NSE in relation to the proposed initial public offering of its Equity Shares and will make an application for the in-principle approval for the listing of its Equity Shares on BSE and NSE. To give due regard to the interests of the Shareholders by allowing them to directly benefit from the Proposed Spin-off (and taking into account that the Company would not be able to provide the Shareholders with an assured entitlement to Equity Shares pursuant to the Proposed Spin-off due to the legal restrictions and practical difficulties) and subject to the Proposed Spin-off being completed, the Company proposed to pay a special cash dividend to the Shareholders of an aggregate amount which will not be less than 40% of the net proceeds to be received by the Company from the sale of existing Equity Shares pursuant to the Proposed Spin-off. Details of the special cash dividend, including the amount and timing of payment, have not been finalised and will be announced by the Company in due course.

Sales

For the current period, the Group recognised a consolidated revenue of US$8,583 million, representing a decrease of US$352 million or 3.9%, when compared to US$8,935 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 has envisaged 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 fifth 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 29 July 2021, global smartphone shipments reached 658 million units in the first half of 2021, representing a promising 19.3% year-over-year growth. Yet, the second outbreak of COVID-19 and the continued component constraints demolished not only the mobile phone supply but also the consumer demand. Reflecting the impact, according to another IDC report released on 27 January 2021, smartphone vendors shipped a total of 1.35 billion smartphones in 2021 with a growth rate of 5.3%, which was worse than IDC's original forecast of 7.4%. 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. 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. The changes in product mix 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, quality assurance and quality control, and tighter control on manufacturing overheads and capital expenditure. But outbreak of COVID-19 has greatly reduced room of improving asset utilisation and capacity optimisation. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to diminish the impact of rising labour cost and enhance efficiency. The Group's dedicated and professional procurement team is leveraged to sourcing materials with competitive prices. Furthermore, there has been continuous strong support from the Hon Hai Technology Group to offer in scale, solid component support and stable supply of key components and a vertically integrated supply chain that allows for production synergies. The Group can leverage on the Hon Hai Technology Group's resources, giving the Group more flexibility in outsourcing capacity.

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

Closely aligning with 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. Coupled with tight cost and overhead control, the Group carried out rightsizing in second half of 2020 to be asset light and this helped reducing overheads in 2021. 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 and the shift of market share between both customers reduced the impact of the loss of the sales to this major customer. 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. But the shortage of component and supply chain constraints and outbreak of COVID-19 in India and Vietnam in second quarter this year have affected phone shipment. Through efforts of local management team, the impact to production interruption has been minimised and production in India and Vietnam of second half of 2021 became smooth. The revenue of Asia segment in the current period was US$6,576 million, representing a decrease of 16.7% from that for the same period last year (2020: US$7,891 million). In the current period, Asia segment's recorded earnings were US$126 million which were higher than the recorded earnings of US$78 million for the same period last year.

a. Some countries have approached mobile phone market saturation, leading to price competition and forcing industry operators to lower prices to gain competitive edge and a majority of the market participants face challenges with respect to the operating margin in the EMS industry, profit margins are relatively low. As component prices are on an average, key focus lies on the labour costs. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans. Currently, this is viewed as a significant restraining factor for the market. 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 mix and improvement in efficiency and yield (in particular China operation) this year, there was promising year-on-year improvement in margin performance.

b. 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 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 has continued into 2021. Secondly, as mentioned in above section of "Impacts of COVID-19", COVID-19 outbreak and resurgences and rising demand for electronic products as more people work from home, and a lack of investment in chip production capacity have all contributed to the global chip shortage and supply chain disruption and the recovery path of our customers and the behavior of end customers. The global chip supply shortage has intensified in 2021 after the COVID-19 pandemic, as major companies across industries have failed to meet the rising demand for electronic goods and components. The supply of finished electronic products and components necessary for local manufacturing has been delayed due to prolonged congestion at ports and a lack of containers. 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 analysts predict overall supply constraint in semiconductor industry is still far from being over and the chip shortage may not end until 2022, since supply delays caused by current COVID-19 limitations are expected to last at least a year. Therefore, 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.

c. 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 year on year decline of 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 minimise the impact of the COVID-19 resurgences on operations and the situation stabilised 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, have resulted in a negative impact of smartphone growth in 2021 in those regions. 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.

d. 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 utilisation improved in 2021.

e. China has shown its resilience during the pandemic year and register good GDP growth of 8.1% in 2021. China's economy has recovered well with the government focusing on supporting Small and Medium Enterprise (SME) and allowing delay of loan repayments. Though China's industrial economy showed positive signs, retail and investment industry remained weak and challenging. As the recovery gains traction, the composition of aggregate demand is likely to shift toward private domestic consumption. Real consumption growth is expected to eventually return to pre COVID-19 levels, aided by continued labour market recovery, growing household incomes, and increased consumer confidence. Despite recent increases in imported raw material prices and an increase in local demand, consumer price inflation is projected to stay below target. Given the on-going uncertainty, the authorities are expected to remain flexible and modify the level and nature of macroeconomic policy assistance.

For India, the pandemic has created unique growth opportunity. Supply chain disruption during the pandemic has forced many countries and organisation to re-think on their sourcing and reshoring strategy and reduce dependency on one country for the entire supplies. These large companies looked for alternate low-cost manufacturing locations in South East Asia and India is emerged as one of the sought after investment destinations for many of these companies. As there would be re-alignment of global supply chain in the coming years, India is likely to benefit immensely from these strategic decisions and likely to become a manufacturing powerhouse in the coming years. Favourable business environment, attractive tax incentive, liberal FDI norms, constantly improving Ease of Doing Business rankings, enormous consumer base and rapidly improving digital infrastructure are some of the key factors that will drive investment in India in the coming years.

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 years ago 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-globalisation. 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 catalysed 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 handsets. 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 resources 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 27% 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 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 and 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 has opened in the fourth quarter of 2021. The Group has critically reviewed 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.

The situation varies in different countries in Asia segment in 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. In terms of China, according to Quartz report on 16 September 2021, despite the fact that many companies have spent the past several years moving manufacturing out of China and into neighboring southeast Asian nations, especially Vietnam, some of them strived to shift their production back to China due to the deadly Delta outbreak in Vietnam since late April 2021, with a high probability to benefit China. Furthermore, as the RCEP trade agreement took effect on 1 January 2022, it is expected to help power China's recoveries from the pandemic.

Europe Segment

The recorded revenue of Europe segment in the current period was US$794 million when compared with the recorded revenue of US$537 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$40 million, when compared with the recorded earning of US$15 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 the Group and HMD as HMD cannot raise selling prices readily to accommodate rising costs so as maintain price competitiveness. This in turn affected the Group's gross margin. Shortage of feature phone chipsets is growingly serious as chipset vendors no longer want to manufacture 2G chipsets and allocate priority production resources to the market popular 4G/5G and next generation chip and feature phone business is facing great challenges for harder to secure 2G chipsets. This shortage has continued through the whole year of 2021 and the impact on feature phone shipment is foreseeable.

As HMD is striving for greater market share in the saturated market and with feature phone consumers are much price sensitive, it is fairly difficult to transferring the rising cost pressure to the end market consumers; which result in the continuous cost erosion pressure the Group is facing. In order to maintain same profit margin level, HMD started outsource strategy to low-tier ODM companies and at the same time, place pressure on us. All the above mentioned factors contribute to a foreseeable continuing pressure in the profit margin. Therefore, the Group is selective and has rejected lower profit margin Nokia branded feature phone projects and by shifting resources for exploring non-Nokia business opportunities. Also by maintaining competiveness with ODM rivals, the Group is undertaking actions for developing common module assets to shorten product development time and to reduce project development costs for each projects and all these initiatives aiming for efficiency and cost improvement. When approaching new business opportunities in industry other than our core mobile handset industry, the Group benefits from the fame of our company; at the same time, the common symptom of large company places constraints to fast response and flexibility; adjustability with reactions and adaptability with options are areas for improvements for us to maintain and gain competition leadership.

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$1,212 million when compared with the recorded revenue of US$507 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$51 million when compared with the recorded earnings of US$21 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. 2021 performance 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. The profit is managed carefully by tightly control direct labour to overcome capacity fluctuation and we are in good track for yield and attrition control. The labour rate in China keep on soaring especially during peak season.

    For this important customer of very good potential, the Group provides depth of engineering service for customer premium, complex smartphone product NPI (New Program Introduction) and failure analysis service. The Company can timely ramp up the volume to meet customer demand within very short time by managing operation complexity and yield timely improvement. The Company developed depth of automation robot software, robot central control system, AI inspection algorithm to reduce labor amount dependency and manual un-consistence and real-time big data analysis and visualisation tool to assist yield improvement. To fulfill customer's orders, we have focused on engaging 2022 new products NPI (New Program Introduction), new products ramping up, yield improvement and chasing material availabilities to support customer launch volume. Instability of material supply remains as a big headache. The Company need to resolve the fluctuation by managing huge scale idle capacity during shortage and also to deliver quality engineering service. The capacity fluctuation will remain the same due to unstable material supply.

(ii) For reverse logistics and repair and refurbishment business, in 2021, smartphone retail stores and retail service channels have gradually recovered from the COVID-19 shutdowns or closures starting from the second half of the year. However, major smartphone OEM is providing new refurbishment service model directly to carriers and retail channels which impacting our hub type of refurbish operation. And smartphone OEMs are continuously changing their product design and repair policy which also causing the shrinkage of overall smartphone refurbish business model 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 slowed down when most of consumers "staying home" and "working from home" rather than mobility during this period. Both our Texas and Mexico operation have been impacted by unexpected global supply chain issues starting from third quarter. And the impact to Mexico factory manufacturing is covering entire second half of 2021. By leveraging the Company's product design capabilities and global supply chain operations, Chihuahua factory has attracted numerous customers to restructure their global manufacturing strategies in 2022. And Texas operation is also impacted by unexpected labor shortage after post-COVID which has led to operation cost increase and gross margin dropped while sales revenue target still can be maintained. Looking forward, 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 EV area in automotive industry and Tariff-impact products. And Texas site will support major OEM customers who are looking for solutions and planning to assemble their products in U.S. starting from second quarter, 2022. But the worldwide material shortage, global logistics and supply chain issues not only have impacted in 2021 will remain as the major risk to both sites all the way through entire 2022.

(iii) In 2021, the Group has devoted resources and effort to build up R&D capabilities for mobile devices, especially for cellular embedded products, including cellular modem, antenna and radio engineering, software, mechanical/thermal engineering and operator network testing and customisation and the Group succeeded to break the ice on entry into U.S. market this year and gradually developed some new overseas customers there and manufactures products including mobile phones, cellular embedded tablets, cellular embedded routers and data modules. 5G products are gaining more momentum as the operators are promoting more 5G services and 5G products are becoming more affordable as chipsets for mid-to-low tiers products become available and the Group is seeing more 5G products in our shipment portfolio based on the momentum. The difficulties encountered are fierce competition in this market segment which pressures us in cost and new technology adoption, and the semiconductor shortage causes fulfillment difficulty and loss of revenue/profit opportunities. But both of these driving forces push us for continuous improvement in design and sourcing capabilities as well as more closed partnership with key part suppliers. Given our initial success in top tier U.S. operator business, we see promising opportunities for other U.S. operators and expansion of more product portfolios.

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 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 report, 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 mechanics, electrical drives and acoustics and haptics optical applications. Its revenue increased by 4.0% year-over-year, while gross profit margin and net profit margin increased by 3.0% and 2.5% respectively year-over-year in the first three quarters of 2021. The raising revenue was mainly driven by the increase in acoustics and optics product shipments, and the margin improvement was caused by the cost optimisation and higher yield rate. In terms of mechanics business, as one of its customers was restricted by the U.S. sanction, the shipment declined significantly compared to the last same period. Yet, the company continued to develop the casing business for non-phone products and expected the revenue contribution of non-mobile (notebook and tablet etc.) casing business can reach over 15% of precision mechanics in 2021. Besides, the company invested several automotive startups to acquire relevant technologies and promotes a comprehensive solution for smart cars across all the product lines.

(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, and new energy vehicle connectors and module. The company aims to decline the proportion of revenue from domestic customers and mobile phone products to reduce the dependence on single product and pump up the margin performance. Following the objective, the company has acquired a new international customer and went mass production of the casing and component of its notebook and smart wearables. The revenue contribution continued to grow and expected to be doubled in 2021, while the higher ASP (average selling price) made the overall margin improvement. Other than this, the company also gained MR (mixed reality) headset casing orders to step into the Metaverse industry, which is expected to be a revenue driver in 2022. 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 EV sales was expected to account for 10% of total revenue in 2021. In the first three quarters of 2021, the revenue rose by 9.2% year-over-year, though the net profit margin was down by 4.6 percentage points, mainly because of the skyrocketed material price and the lower utilisation rate due to the delayed launch of one of the major phone, as well as the increase in spending on R&D as new business development.

(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. The increase in the shipments of Android glastic casing offset partially the decrease in metal injection molding parts from one of the major international customers as the customer's order adjustment due to component shortage. Also, the ASP of glastic casing products is almost twice as high as the ASP of plastic casing, which means the momentum will drive the overall margin up. In respect of other businesses, the company started mass production of the metal components of batteries for new energy vehicles in the third quarter. In the first three quarters of 2021, the revenue of the company increased by 10.1% year-over-year.

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, the China smartphone's market saturation, and component constraints 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 three quarters 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 28.0% revenue increase in the first three quarters of 2021. Its revenue from EMS/ODM and components still accounts for a large portion of total sales. In the first three quarters, the booming growth revenue was driven by the considerable contribution of the new product from an American, non-Android smartphone customer. Though the chip shortage and China's electricity supply control resulted in the revenue downturn in the third quarter, the growing sales contributed by a new customer offset the headwinds. The assembly business soared significantly by 207.5% year-over-year in the first half of 2021. In addition, the company is expanding into more diversified markets such as IoT products including drones, robot vacuums, gaming consoles and e-cigarette, which ultimately gave an impetus to its earnings growth. The company reported a 38.3% revenue increase from its IoT business in the first half of this year. Regarding its automotive software business, the revenue has leaped notably due to significant increase of new energy vehicles shipments and recovery of the automotive industry, with having several domestic and international carmakers as its customers. In the first three quarters, the gross profit margin and net profit margin went down 7.5 and 5.1 percentage points year-over-year respectively, primarily resulted from the increase in lower-margin assembly revenue and the fallen shipments of higher-margin medical mask as the pandemic became stable.

(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. Its net sales uplifted by 13.3% in the first three quarters of 2021, while the net income margin modestly went up 1.1% year-over-year. In spite of persistent component shortages and logistics challenges, the company still made a double-digit revenue growth. The pumped sales attributed to the continued resurgence in consumer spending in developing markets and robust demands for communication devices, electric vehicle and medical products particularly related to diabetes care and medical imaging. Profit growth was bolstered by better product mix but tempered slightly by higher cost of logistics and industry-wide component constraints.

(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 three quarters ascended 16.0% year-over-year, while net gross margin and net profit margin saw a 3.3 and 0.3 percentage points year-over-year decrease. The mild decline in margin stemmed from the smartphone business downturn and the restricted components. The company beard a burden of the massive loss in smartphone business as the shipments from one of its major customers crippled by the U.S. sanctions plunged, however, the robust demand in its storage semiconductor manufacturing, packaging and testing services considerably offset the impact. The new memory chip plant expected to go mass production at the end of 2021, and it would contribute to a further increase in revenue. Moreover, the demand for medical respirator products maintained strong growth momentum, and the company intended to expand its investment in higher-margin EMS businesses such as home medical products. In terms of other businesses including ODM and new energy automotive, the company is developing more oversea customers to adopt its new intelligence solutions and continues to invest R&D in supercapacitor module solutions for electric vehicle, wherein several products have already entered mass production.

(iv) Peer 4 is also a Shenzhen listed company whose main business is EMS service for consumer electronics, internet communication product, smart devices and automotive electronics. In the first three quarters, the company posted a 24.6% year-over-year increase in revenue, but a 4.2% year-over-year decline in net profit margin. The company acquired the orders from one of the China major smartphone brand companies to offset the headwinds of its customer suffered from the prolonged U.S. sanctions. In the meantime, the company captured the opportunities to enlarge its manufacturing capacities in India and Bangladesh, securing bulk orders from the china customer subsequently. However, due to the different business model from consignment to buy and sell in these countries, the overall margin has been dragged down. Similar to other competitors, the company is expanding its product portfolio to non-mobile device business including smart wearables and tablet, and moving into the automotive electronics segment, with partnership with a leading vehicle electrification supplier.

Apart from the peers mentioned above, a precision parts manufacturer who was not covered in our peers had 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, assembly, charger and materials etc.. The peer has restructured the business since 2019. Recently, in order to provide a vertical integration solution from across all product lines, this particular peer aggressively invested in the assembly business not only in China, but also Vietnam and Europe. In the first three quarters of 2021, benefiting from the increased revenue of assembly and charger business, the year-over-year revenue growth rate was 10.9%. Yet, the net profit margin was eroded, down by 1.5%, affected by component shortage, the raising price of materials and the second wave of COVID-19 in South Asia, though some of businesses have been turned around. Besides, the company leveraged its structural parts manufacturing abilities to develop electric vehicle battery casing business and established a new factory in China. 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 31 December 2021 is less than 5% of the Group's total assets as at 31 December 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 optimise 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.

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 other ODMs. 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 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 as explained in above sections, 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 31 December 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 continue to monitor the progress its fund raising and business performance and liquidity and impact of COVID-19 and component shortage to its business and cash position.

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. Hence, CloudMinds has started a recapitalisation process and a new round of financing to enhance its future technology development and financial status starting from the end of 2020. On November 2021, CloudMinds closed its recapitalisation and its B+ round financing with over US$100 million from several reputable strategic investors. Therefore, the Group's stake in CloudMinds' related entity fall from 0.88% to 0.82%. 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 31 December 2021. The Group took corresponding adjustment to the fair value change in this investment.

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. Against the supply chain shortage in semiconductor industry in 2021, Augentix still achieved a near 80% revenue growth over last year, and it still keep the pace to develop new products. Providing broader edge computing applications in surveillance, home security and consumer IP camera, Augentix's brand-new AI SoC is expected to enter the market in the last quarter of 2022. 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. On July 2021, Augentix has closed a new round financing of nearly US$5 million with several strategic investors, hence, as at 31 December 2021, the Group's stake in Augentix is slightly decreased from 2.33% to 1.93% 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, and headquartered in Redmond, Washington. Ossia has announced 8 Cota-enabled products coming to market in the last 12 months, including Cota Power Station, Cota Asset Tracker, Cota-powered IoT sensor, Cota Power Table and so forth. Specifically, Cota Power Table was named a CES 2022 Innovation Awards honoree in the Mobile Devices and Accessories category, aiming to provide a seamless wireless charging experience for 200+ Qi-enabled devices on the quick service restaurants, coffee shops and airports. 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. On 8 December 2021, the company was liquidated and the Group has removed the investment from its investment portfolio.

Founded in 2007, Snapdeal Limited ("Snapdeal") is a leading e-commerce platform in India, started as a coupon booklet business, but transformed into an online deals platform in 2010 and an online e-commerce marketplace in 2012. The Group invested US$200 million comprising US$150 million in cash and US$50 million subscribed from its existing shareholder at a discounted price in 2015. In 2017, the Group had fully impaired this investment due to its less than expected operation and financial performance. On 21 December 2021, Snapdeal filed the Draft Red Herring Prospectus (DRHP) toward the Securities and Exchange Board of India (SEBI) for the purpose of IPO. The company stated that the fresh issue amount would be up to INR12,500 million and the Offer for Sale of equity shares would be up to 30,769,600 sold by the existing shareholders. The Group has participated the Offer for Sale and expected to sell up to 17% of its current shareholdings of Snapdeal. The rest of shareholdings will have a six month lock up period post IPO and the investment team will monitor the share price and India stock market performance to liquidate in a timely manner. Based on the performance in 2021 and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in Snapdeal as at 31 December 2021. The Group took corresponding adjustment to the fair value change in this investment.

For exploring more opportunity and business in V2X industry, the Group has made significant development during the current period.

On 31 December 2021, the Group has closed the deal and introduced Stellantis, world's number 4 leading automakers and mobility provider, to invest US$40 million in Mobile Drive Group, an automotive technology focused wholly-owned subsidiary of the Group. After closing, Mobile Drive Group became a jointly venture which is equally owned by the Group and Stellantis. Combining with wide resource and solid experience from both sides, Mobile Drive Group would rely on the expertise in wireless communication and automotive industry to focus on the software and hardware integration in smart cockpit and in-vehicle infotainment system, delivering the disruptive in-vehicle V2X solution to the entire industry, and the Group would become the strongest anchor partner to provide all the supports from the hardware manufacturing side. During the course of the transactions, the management of the Company's evaluation of the Mobile Drive Group's management accounts, cash flow analysis, financial forecasts, business performance and prospects, valuation analysis and other relevant information and documents then available (particularly in the context of determining the consideration for the Group's disposal of 50% interest in the Mobile Drive Group), and also the relevant negotiations and transaction documentation with Stellantis (with the aim to securing more favourable terms for the Group as a viable joint venture opportunity of the Group to optimise the Group's investment in the Mobile Drive Group in the circumstances), were recorded and reported to the Board for its consideration.

The Group also made certain investments in other companies designated as fair value through other comprehensive income ("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 automotive fields, and a high-end Android smartphone company led by a group of experienced experts in the mobile industry.

As at 31 December 2021, the fair value of the Group's equity investments designated as FVTOCI was US$225 million, which represented 3.8% 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 2021, the Group had disposed of some investments, and also took corresponding adjustment to the fair value change in a few investments which had better/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 arises. 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 2021. 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 industries with huge potentials, including automotive, 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 automotive 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 minimising 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 IEK Consulting, global medical device market is expected to grow at a CAGR of 4.8% to reach US$491 billion by 2023. 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 less utilised 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 2022.

At the current period, the Group's wholly-owned subsidiary Mobile Drive Group has become a jointly venture which 50% owned by the Group and Stellantis individually, and the subsequent share of profits/losses of the joint venture will be accounted for by equity method in the Group's consolidated financial statements. Other than that, there had been no material acquisitions and disposals of the Group's subsidiaries and associates and (if any) joint ventures. 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, 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 described in page 89 of the Company's 2021 interim report as issued and published on 15 September 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.

In relation to the PRC tax and related laws and regulations:

- For value-added tax (VAT), please refer to the background and previous developments as described in page 89 of the Company's 2021 interim report as issued and published on 15 September 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.

- For certain tax cut measures, please refer to page 89 of the Company's 2021 interim report as issued and published on 15 September 2021 for certain tax cut measures applicable to manufacturing companies as introduced by the Ministry of Finance of the PRC (MOF) and the State Administration of

Taxation of the PRC (SAT) in March and April 2021. Such tax cut measures increased the "super deduction" before income tax for R&D expenses from 175% to 200%, thus significantly reducing 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.

On 24 December 2021, the Standing Committee of the National People's Congress of the PRC (SCNPC) issued the draft revisions to the PRC Company Law for public consultation (Draft Company Law Revisions), which made roughly 70 substantive changes on the basis of the currently effective PRC Company Law. The Draft Company Law Revisions touch upon corporate governance, related party relationship, potential legal liability faced by shareholders and management personnel, etc., and are aimed at, among other things, (i) improving a company's establishment and dissolution/exit system; (ii) optimising a company's organisational structure and corporate governance; (iii) optimising a company's capital structure; (iv) tightening the responsibilities of controlling shareholders and management personnel; and (v) strengthening corporate social responsibility. The Draft Company Law Revisions are still under discussion and have not yet been adopted. At this stage, the Group's PRC subsidiaries will continue to monitor the public consultation process of the Draft Company Law Revisions and assess their potential impacts on the operations of the Group's PRC subsidiaries in anticipation of their adoption.

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 90 of the Company's 2021 interim report as issued and published on 15 September 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 then effective PRC Company Law, the Group FIEs will continue to assess the impacts of the FIL and (as mentioned above) the Draft Company Law Revisions on their operations and then devise and implement appropriate corporate initiatives and actions.

India

Please refer to pages 90 and 91 of the Company's 2021 interim report as issued and published on 15 September 2021.

Vietnam

For the Vietnamese government's policies regarding reduction of certain fees and charges as well as payments in relation to social insurance contributions and retirement and survivorship fund, please refer to page 91 of the Company's 2021 interim report as issued and published on 15 September 2021.

Moreover, the Vietnamese government issued the Resolution No.116/NQ-CP dated 24 September 2021 regarding the supporting policies during the COVID-19 pandemic in relation to the unemployment insurance fund, pursuant to which (among other things) employers who are affected by the COVID-19 pandemic will be allowed to reduce their contribution rate to unemployment insurance fund from 1% to 0% during the period from 1 October 2021 to 30 September 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 2021 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

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

Liquidity and Financial Resources

The Group's capital resources consist of cash principally provided by operating activities and bank credit facilities. The Group regularly reviews the borrowing capacity and makes necessary adjustments for changes in money market and economic conditions and changes in our working capital requirements. The Group centrally manages the funding and treasury activities in accordance with corporate policies, and the main objectives are to ensure appropriate levels of liquidity, to have adequate 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 and uncertainties and volatilities.

As at 31 December 2021, the Group had a cash balance of US$1,885 million (31 December 2020: US$1,779 million). Free cash flow, representing the net cash from operating activities of US$281 million (31 December 2020: net cash used in operating activities of US$89 million) minus capital expenditure of US$119 million (31 December 2020: US$102 million), was US$162 million inflows (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$857 million (31 December 2020: US$929 million) over total assets of US$5,980 million (31 December 2020: US$6,032 million), was 14.33% (31 December 2020: 15.40%). All of the external borrowings were denominated in USD, RMB 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 0.61% to 5.90% (31 December 2020: fixed rate ranging from 0.72% to 5.90%) per annum with an original maturity of one to six months (31 December 2020: one to two months).

As at 31 December 2021, the Group's cash and cash equivalents were mainly held in USD, RMB and INR.

Net cash from operating activities during the current period was US$281 million.

Net cash used in investing activities during the current period was US$87 million, of which, mainly, US$119 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$3 million represented acquisition of equity instruments at FVTOCI, US$2 million represented net cash outflow on deemed disposal of subsidiaries, US$1 million represented withdrawal of bank deposits, US$2 million represented dividends received from equity instruments at FVTOCI, and US$33 million represented proceeds from disposal of property, plant and equipment.

Net cash used in financing activities during the current period was US$111 million, primarily due to net decrease in bank borrowings of US$74 million, payments on repurchase of ordinary shares of US$18 million, interest paid on bank borrowings of US$7 million, repayment of lease liabilities of US$11 million and interest paid on lease liabilities of US$1 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. USD 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 throughout 2021 into 2022.

Capital Commitments

As at 31 December 2021, the capital commitments of the Group were US$15.0 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 31 December 2021 and 31 December 2020.

Contingent Liability

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

Donations

The Group has, in the financial year ended 31 December 2021, made donations for charitable or other purposes to a total amount of approximately US$614,000.

Outlook

Market and OEM Industry Review and Challenges to the Group

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 and on time delivery. 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 the economy of China is opening up, China has attracted low-end and favourable 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 largely deploys its manufacturing facilities in China, the development of 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 labor 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 labor 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 customers have made the sustainable development of OEM companies a challenging task. In fact, going after the cheap manufacturing cost in China is no longer a favorable option. According to the report of Nikkei Asia on 2 December 2021, in response to President Xi Jinping's "common prosperity" campaign, 20 out of China's 31 provincial-level regions have raised their minimum wages in 2021, including Shanghai, Beijing, Guangdong, Tianjin, Shanxi, Zhejiang, Jiangxi, Hubei, Ningxia, Hainan and Gansu, and so on. In particular, Guangdong Province, China's largest province by economic size, has lifted its monthly minimum wages to between 1,620 yuan and 2,360 yuan from between 1,410 yuan and 2,200 yuan. In the meanwhile, the figure has rose 7.3% to 2,360 yuan in Shenzhen, a home to many of China's top technology companies, and 9.5% to 2,300 yuan in Guangzhou, the provincial capital and automaking hub of China. Higher labor costs prompted manufacturers to shift production elsewhere. Besides, affected by COVID-19 pandemic and rising cost of marriage and giving birth, "China Statistical Yearbook 2021" published by the National Bureau of Statistics revealed that China's birth rate in 2020 recorded as 8.52 per 1,000 people. The birth rate falling below 1% could be seen as a major turning point in China's demography. To fight against sluggish fertility rate, China has formally revised its laws to allow couples to have up to three children in 2021 August. Nonetheless, despite the government efforts to encourage couples to have more children, China only recorded 10.62 million births in 2021, or only 7.5 births per 1,000 people, marking the lowest level since 1949, according to China's National Bureau of Statistics. With the aging and shrinking workforce, the wage in China is expected to rise continually in the face of labor supply shortage. The uplifting wage is 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 the above "Asia Segment" section, there are detailed explanations why the Group, upon request of customers, made the strategic decision to expand in India and enhance its competence and mitigate the risk of reliance on a single region.

At the beginning of 2021, the global economy rebounded strongly under the easing of the COVID-19 pandemic, increasing number of vaccination and reopen of countries across the world. Yet, COVID-19 resurged across the world due to the Delta and Omicron variants in late 2021, which continue to spread in early 2022. The ongoing pandemic exacerbated supply-chain disruption and inflation, further stalling the global economic growth. This year, these uncertainties still loom over globe economy. Maersk, a global shipping giant, warned customers that it was still struggling for goods shipping around the world as the easing of congestion was taking longer than it had hoped for, according to Reuters report on 11 January 2022. It indicated that the problem of supply chain was not over, which still had a profound impact on supply and demand balances. Under prolonged supply-demand imbalances, many nations have been facing considerable inflationary pressure and have been expected to step into a new round of rate hike cycle. According to the data released by the United States Labor Department on 12 January 2022, the CPI rose 0.5% in 2021 December, and inflation climbed to its highest level in 40 years at the end of 2021. High inflation may push the Federal Reserve to move faster toward tightening. Goldman Sachs also predicted that the Federal Reserve is likely to raise interest rates four times this year and will start reducing its balance sheet in July 2022, as per CNN reported on 10 January 2022. Overall, looking toward 2022, global economic is gradually recovering, however, with multiple uncertainties lingering. The situation has led many institutions to lower their economic growth forecasts for this year. According to the IMF's World Economic Outlook published on 25 January 2022, global growth forecast in 2022 has been downgraded to 4.4% from 5.9% in 2021.

Likewise, in the report published by World Bank on 11 January 2022, global growth is also estimated to decelerate from 5.5% in 2021 to 4.1% in 2022 and even 3.2% in 2023. The report also points out that the growth in advanced economies is expected to decline from 5% in 2021 to 3.8% in 2022 and 2.3% in 2023, and as for emerging and developing economies, the growth is expected to decline from 6.3% in 2021 to 4.6% in 2022 and 4.4% in 2023. It is worth mentioning that the significant deceleration in major economies, including the United States and China, will weigh on external demand in emerging and developing economies.

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-political and geo-economic risks, government incentives and support, consumer behaviours and propensity to consume, product mix, technological 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. Even worse, though the pandemic situations become stable and the consumer demand upturned, in the second half of 2021, the component constraint problems surfaced to cause the adverse impact on the smartphone market and pent up the growth rate. According IDC report published on 28 October 2021, the smartphone vendors shipped a total of 331.2 million units, declined by 6.7% year-over-year in the third quarter. In reality, the issue has been compounded by several factors, not only limited to component shortage, but also logistical challenges, delayed transportation and power supply constraints in China. IDC has lowered its 2022 growth forecast from 3.4% to 3.0% indicated these challenges may not improve until mid-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, component constraints, price increase in components and labour cost, competition among Chinese vendors have become fiercer. Because a major Chinese giant has been forced to withdraw from the market resulting from the unrelieved sanction imposed by the government of the U.S., the OEMs who used to provide services to this brand company have been fighting head to head to other OEMs trying to maximise the use of already surplus manufacturing capacity at a relatively lower price quotation. At the same time, the Group's customers have been either 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. On the whole, the gross margin of system assembly business was eroded seriously. However, the Group continues to adjust the business strategies, switching from revenue maximisation to continuous profit improvement. Instead of seeking for increasing smartphone market shares, we keep diversifying product portfolio, in particular the higher-margin product lines.

According to the analysis published by IDC on 2 December 2021, mobile phone brand companies have already moved more aggressively with their 5G portfolios both in terms of production and price points. The smartphone market downturned in the short run due to the supply chain disruption, exorbitant shipping cost and port congestion, however, on the bright side, as the situation more heavily impacted on 4G devices than 5G, it is expected to expedite the speed of the shift to 5G, which is forecast to be shipped almost 60% of worldwide shipments at the end of 2022. IDC expected 5G devices would soar by 117% in 2021 year-over-year, and the total number of 5G devices would grow from approximately 555 million in 2021 to 1,094 million in 2025 at a CAGR of 14.6%. Though the total shipments declined compared to the previous forecast numbers, the penetration rate climbed throughout several regions. Echoing the above figures, the leading smartphone chipmaker — Qualcomm, on its latest financial report, adjusted the growth rate of global handset shipments for 2021 from high-single-digit to mid-to-high-single-digit. Yet, the company was still optimistic about the shipments of 5G handsets, with an increase in forecast from 450-550 million to 500-550 million. Regarding the average selling price, the ASP of 5G smartphones are expected to be US$643 in 2021, which is 1.7% higher than the price in 2020. IDC pointed out the ASP (Average Selling Price) reached a peak since the continued demand for premium models in developed markets, but as the 5G penetration rate become higher gradually, the overall price will fall accordingly. On the other side, the rollout of 5G network is also a key factor to influence the adoption of 5G devices. According to the Ericsson Mobility Report published on 30 November 2021, 5G telecom subscriptions ascended by 98 million during the third quarter of 2021, to 570 million. Ericsson estimated the subscriptions will grow up to more than 660 million by the end of the year. Refer to the rollout of 4G, the 5G subscription is expected to penetrate faster than 4G, which was launched in 2009, resulted from the timely availability of devices from several vendors, the faster decline in the price of 5G devices, and China's early engagement. By the end of 2027, the report indicated the 5G subscriptions would be accounted for 49% of total mobile subscriptions, with 4.4 billion subscriptions worldwide. But as the chipset suppliers allocate priority production resources to the market popular 4G/5G and next generation chip, feature phone business is facing great challenge for harder to secure 2G chips. This shortage has continued through the whole year of 2021; the impact on feature phone shipment is foreseeable. The Group is taking actions to diverse business risks by expand into other product categories other than mobile phone, especially with the downstream in the feature phone demand.

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. However, according to the THE ELEC news released on 3 December 2021, Qualcomm CEO Cristiano Amon claimed that the global chip constraint is easing and expected to improve further in 2022. The optimistic statement runs counter to other statements from several top managers of the largest semiconductor manufacturers. Intel CEO, Pat Gelsinger, believed that the chip shortage will continue until 2023; while the head of ARM, Simon Segars, is completely pessimistic and stated the situation will get worsen. Regarding the surged price, according to the UDN news released on 8 November 2021, the leading Taiwanese chipmaker, MediaTek, raised the prices of some of its smartphone chips to reflect the increased cost of production from its IC foundry supplier. It is worthy to note that the rise in prices of 4G processors is much higher than 5G enabled processors, which is 15% and 5% increase respectively, indicated the 5G chips have been prioritised to manufacture and to further cause the 4G chips shortage to become severe. That is aligned with the viewpoint mentioned in the last paragraph. Even though there are different expectations in terms of chip shortage, the Group held a conservative point of view and thought the supply chain disruption situation would not alleviate until the second half of 2022. 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 be dragged on for a certain period.

From the second half of 2020, the supply chain has been severely strained due to the ongoing COVID-19 pandemic and the surge of global cargo volume. As coronavirus resurged due to the widely spread of contagious Omicron variant in late 2021, labor shortages and snag in operation of major global ports further got worse. According to the report revealed by Container xChange, a logistics technology company, on 11 January 2022, owing to the port congestion, container shipping rates continued to rise and the Shanghai Containerized Freight Index (SCFI) even broke through the 5,000 mark at the end of 2021 December. Looking toward this year, many data and reports have indicated that the supply chain problem will not ease in the near term. Sea-Intelligence, a maritime data firm revealed a report on 11 January 2022, stating that congestion and bottleneck problems are worsening getting into 2022, and there is no indication of improvements as of yet. Furthermore, Fortune also reported that China's strict COVID-zero response to Omicron could further trigger supply-chain chaos on 13 January 2022. It is expected that the pandemic-related delays and closures, non-stop demand for ocean freight from Asia to the U.S., and a lack of capacity resulted in the mismatch between demand and supply at many origin ports, together leading the freight rates to remain high this year. As freight rates on overseas routes continued to rise, uplifting cost limited the profits and drove businesses to transfer the cost pressure to the end market consumers. In response to the problem, many businesses have switched the shipments to air and road transportation, but the adjustments couldn't effectively solve the delays in shipments. It still takes time to ease off the logjam at most major seaports.

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 remained tough. On 21 May 2021, the U.S. Commerce Department officially announced that the government will keep Chinese telecommunications 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. Until now, Huawei has not accessed to Google Mobile Services and obtained the 5G-enabled chips. The company continues to release its 4G smartphones to stay the market visibility and maintain the loyal customers who are willing to accept the phones embedded with the Harmony OS and 4G processor. Even worse, on 14 October 2021, U.S. senators called on the Biden administration to blacklist Honor, a Huawei's spun-off company, describing the firm as a threat to national security. Although Huawei had already sold out Honor's shareholdings to a consortium of over 30 agents and dealers and completely lost control, the U.S. senators still described Honor as essentially an arm of the Chinese government with newly unfettered access the same prized U.S. technology currently denied to Huawei. The risk of geo-economic has yet to vanish and may have impacts on the Group's businesses recovery and development.

Growing tensions between the U.S. and China and the persistence of COVID-19 pandemic, coupled with the resulting restrictions, have renewed and intensified calls in the U.S. and other countries for reducing dependence on China. While these sentiment and action are 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 and sanctions intensifying in the future. Amid further escalation of the tensions, many companies have increasingly hedged against risks of tariffs by establishing operations and markets outside of China for their overseas business. However, with the onset of the second wave of COVID-19 due to Delta, 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. The Quartz report on 16 September 2021 echoed this scenario, saying that despite the fact that many companies have spent the past several years moving manufacturing out of China and into neighboring Southeast Asian nations, especially Vietnam, some of them strived to shift their production back to China due to the deadly Delta outbreak in Vietnam since late April 2021. Nonetheless, as Omicron variant spread rapidly in late 2021, more and more provinces took on twin coronavirus fronts of Omicron and Delta in China. As per The Guardian report on 15 January 2022, at least 14 provincial-level places have reported Omicron cases in China in the past month, including Beijing, Shanghai, Guangzhou, and Shenzhen. Many factories have therefore temporarily shut down or even closed permanently with the implementation of China's "Zero-COVID" Policy, which posed more threats on factories' production capacity in China. The continuing spread and unpredictable evolution of COVID-19 viral now cast doubt on manufacturers about relocating the product lines.

In India, high domestic volumes and consumption, and higher outsourcing volumes would facilitate multinational EMS/ODM to bring in the component ecosystem locally and enhance local capabilities of component sourcing, thus making the local ecosystem stronger and closer. Especially, the extensive financial costs involved in setting-up manufacturing, capacity additions/expansions, R&D and manpower, Tier-2 players (companies supplying products to tier 1 companies/OEMs) are increasingly to leverage local EMS/ODM services. Besides, along with the numerous incentive schemes, allowing Indian electronics manufacturing to growth, reduce dependence on the imports and promote the exports, including (a) PLI Scheme (at a value of INR 2,000 billion); (b) Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (providing financial incentive of 25% on capital expenditure); (c) Modified Electronics Manufacturing Clusters Scheme (EMC 2.0) (provides financial assistance for setting up of EMC projects); and (d) Merchandise Exports from India Scheme (MEIS) (the incentives under the schemes are calculated as a percentage, which is 2%, 3% or 5% of the realised FOB (free-on-board). Thanks to that, India's electronics production has more than doubled in the past five years from INR3.2 trillion in FY16 to INR7.8 trillion in FY21. Furthermore, on the demand side, emerging technologies, such as IoT, AI, 5G and the introduction of robotics and analytics in the industrial and strategic electronics segment, have led to the overall development of numerous electronic products, which has boosted local demand. Also, owing to the government's various initiatives to promote EV sales in India, the EV market is gaining more attention as the EV is reliant on the electronic sector for a range of components.

In parallel with the above market perspective, it is important to view the product perspective. From product perspective, with the popularity of innovations and technologies, 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 have begun to optimise phone specifications and largely improved battery to a high capacity of 5,000 mAh with upgraded fast charging feature to attract customers. With enhanced specifications and differentiating features, the display refresh rates became one of the most important differentiators for brands to position their products across low-end, mid-end and high-end, from the basic 60Hz to the highest available 144Hz, and it is expected that 120Hz would replace 90Hz to become the new standard for the most of products while 144Hz will continue to take the premium flagships. In addition, recent innovations similar to the foldable phones have successfully grab more and more consumers' attention, several mainstream smartphone brands have released their flagship foldable products coincidentally, such as Oppo Find N, Samsung Galaxy Z Fold 3, Huawei P50 Pocket, Xiaomi MIX FOLD, etc., these second-generation foldable devices have given an optimistic outlook to the industry with improvements shown over the first-generation models, including quality, performance, and a slimmer footprint. Bigger screens, multi-cameras and under-display camera will also continue to be a trend for features improvement.

Apart from product features, 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 concerns about privacy online, based on a survey conducted by Ericsson on 6 May 2021. With increasing privacy awareness, technological giants such as Apple and Google have taken multiple initiatives to cope with privacy concerns 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 users give them permission to track them. 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 drawn 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. Further, on 13 December 2021, Apple released IOS 15.2 which added "App Privacy Report", a feature designed to let users know how often apps are accessing permissions-restricted info like the camera and the microphone, and also "Digital Legacy" program which could enable user to authorise specific person to access their digital data after they passed away. On the other hand, Google also announced a host of privacy-focused features across its diverse products at its I/O conference on 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.

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's 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 R&D 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 thereby further strengthening competencies. Due to the ever-intensifying competition in the smartphone industry, companies are spending more on R&D. For smartphone makers, the scope of differentiation has been reduced due to each company aggressively investing in R&D. 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 optimisation practices on product development process to achieve increased agility and also to meet the tremendous pace of technological changes and customers' needs. 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 technological knowledge (e.g. 5G) and to embrace new technological requirements for stepping into the Internet of Vehicle (IoV) and medical devices industries. Seminars and technology roadmap sharing meetings are hosted with clients and key component suppliers and targeted vendors who are defining or leading in particular technological categories 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 staff 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 markets in the mobile devices industry. They are able to provide services from product innovation concepts to final product productions, in whole or in part. 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 fundamental for tightening business relationships with customers. Their proven record of serving worldwide clients demonstrates the ability and adaptability to 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 customers' program management efforts; hence, the customers can then focus on their core in promoting their brand products. These value added services uphold the customer-centric service mindset. As a whole, the R&D team helps to deliver corporate strategies; so that it highlights promising ways to reposition the business through new platforms. The R&D team is serving as the Group's innovation engine. Offensively, the R&D team's role is the leading vanguard for the Group's transformation in outreach in different fields; 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. The R&D team also contributes to the manufacturing upgrades and assist factories for the digitalised 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 technologies and stay ahead of its 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, etc. which will be adopted by various products that 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 and 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 its great capabilities in software and hardware integration and optimisation 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 technologies to ensure future business momentum and identify and address the changing demands of customers, industry trends and competitiveness. In India, the Group has been building up its R&D capability and capacity.

As the mobile phone market has become a mature market with less gained traction, the Group continually seeks the investment and business opportunities in other industry with huge potentials, including automotive, healthcare and so forth. On the one hand, along with the rose of environmental awareness and continuous improvement in battery technology and performance, electrification has become the most important keyword in the automotive industry for the past two years. Governments (Japan, Germany, the United Kingdom, South Korea, etc.) and major automotive OEMs (Volkswagen, Ford, GM, Mercedes-Benz, etc.) have announced the related policy and schedule to propose a ban on the sale of new petrol and diesel cars from 2030 to 2040. As the world's largest automotive market, although China's policy of ban is still under discussion, according to CAAM (China Association of Automobile Manufacturers), the sales unit of Chinese new energy vehicles hit a record high of 3.521 million in 2021, raised almost 1.6 times over past year, its market shares (new energy vehicle sales/total vehicle sales) reached 13.4%, and is expected to exceed 18% in 2022. With the wave of electrification sweeping across automotive industry, smart cockpit and ADAS have also become a standard equipment for the digital transformation of the new products from major car manufacturers, and the growing application of electronic components in automobiles would become the key driver for the growth of automotive electronics industry. On the other hand, under the coronavirus pandemic, in order to establish a way of coexisting with the virus, epidemic management and infection treatment also became the driving force of the innovation and transformation in medical technology. Simultaneously, other than the pandemic, the aging population is pushing the whole medical system to the edge of crush, although the global economy could create 40 million new health-sector jobs by 2030 according to WHO, however, there is still a projected shortfall of 9.9 million physicians, nurses and midwives globally over the same period. With the development of "ABCDEF", AI, Blockchain, Cloud, Data, Edge Computing and 5G (Fifth Generation), telemedicine has broken the restrictions on the location and distance of medical services and also released a part of labor shortage, provided patients a connected medical and smart healthcare service across different diseases and ages. In the future, through the data from the wearable device, clinic medical records and health examination reports, patients could go further to interact with the entire healthcare system which not only speeds up the appointment process, but also makes the patients to receive a more accurate diagnosis.

The global trend of the policy makers' vision for the transformation of manufacturing set the path for manufacturing to entering a dynamic new phase. The opportunity comes when manufacturing is going towards digitalised to become a networked factory that uses "big data" and analytics to respond quickly and decisively to changing conditions. The Group's R&D team has the capability of creating "smart" equipment requires for this industry upgrade. Innovations spark additional demand is highly possible; thus, the technology knowledge and skill are key factors to keep us remain competitive.

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 2022. 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 2021

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

Risks Pertaining to the Handset Business

As mentioned above, there was a year-over-year decline in handset shipments due to the smartphone market saturation, which has been exacerbated by the COVID-19 outbreak. The existence of a high number of market participants in all areas results in competitive pricing, which reduces market revenue potential and pricing pressure continued to be high. The aspiration level of Chinese workers has increased and they are focusing on high-tech jobs, leaving gaps in the low end of manufacturing value chain. Coupled with fast recovery of China economy, this has led to scarcity of the labour and a higher cost due to lack of availability of the manpower. As a result, the general state of the global economy, COVID-19, component shortage and disruption, material price and logistics cost surges, geo-political risk, market competition and consumer behavior change, 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 (Bill of Materials) costs and manufacturing costs and improve efficiency and yields, 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. As component prices are on an average, key focus lies on the labour costs and yields. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans. The Group has ceased to manufacture loss making Nokia-branded smartphones in 2019 and HMD has adopted multi-ODM strategy and the Group now only manufactures feature phones for HMD. With all those 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 and this makes it very difficult to forecast order book. 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. As a whole, 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. 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 2022 with an arduous recovery path ahead.

Over the past few years, China has realised its stake of challenges including trade tensions, and what some individuals recognise as the potential threats to China's current position as the world's biggest EMS host country. On top of these challenging concerns, the COVID-19 pandemic has caused major supply disruptions around the world. All of the above issues have prompted OEMs to diversify their supply chain and expand in countries like India, Vietnam and Mexico in order to reduce risk. Mobile phones from brands which were earlier imported from China are now manufactured in India and EMS partners of these brand companies have invested in manufacturing facilities in India which have given huge boost to the Indian EMS industry. In China, the general casing manufacturing industry is facing excess production capacity and the Group's casing operation in particular faced the same in 2020 when the market was hit badly by COVID-19 outbreak. Taking into account reduced demand and continuous decline in the Group's casing operation's gross margin in China and 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 discontinued some of its casing operation in China and 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. The Group also carried out a rationalisation program to optimise headcount. The Group has continued to closely market conditions and made decisions to implement additional 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 and such exercise will continue. But the amount is smaller in 2021. At the same time, there was continued demand from other customers to manufacture casings locally in India and having considered the ample business opportunities in this country 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 on top of phone manufacturing business.

In addition, an increase in the frequency of some 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 further 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 in the short to medium terms, 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 and agile. In the long term, as overall demand increases, market participants will be able to expand through technological investments. Thus, the impact will lower in the mid to long terms.

COVID-19 Pandemic

In above sections, impacts of COVID-19 have been explained in details. The global spread of COVID-19 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 Brasil. 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 utilise 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.

Economies around the world went into travel restrictions/lockdown and caused consumer demand to flat line and consumers get increasingly cautious about their spending. This drop in demand, combined with the travel restrictions/lockdowns/logjams impacted all consumer device markets, including mobile phones. Financial struggles and worries about COVID-19 and component shortages have limited 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.

Risks 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. 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. Until now, Huawei has not accessed to Google Mobile Services and obtained the 5G-enabled chips. The company continues to release its 4G smartphones to stay the market visibility and maintain the loyal customers who are willing to accept the phones embedded with the Harmony OS and 4G processor. Even worse, on 14 October 2021, U.S. senators called on the Biden administration to blacklist Honor, a Huawei's spun-off company, describing the firm as a threat to national security. Although Huawei had already sold out Honor's shareholdings to a consortium of over 30 agents and dealers and completely lost control, the U.S. senators still described Honor as essentially an arm of the Chinese government with newly unfettered access the same prized U.S. technology currently denied to Huawei. The tension has far reaching impact to global economy and the Group will keep monitoring the development.

Reliance on Key Customers and Credit Risks

The Group's five largest customers account for 93.5% of the Group's total revenue. The Group has strong established relationships with these major customers and it is a big challenge to maintain bargaining power with these customers in such a dynamic and highly competitive marketplace. 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 30 to 90 days and are in line with those granted to other customers of the Group. Subsequent settlements of trade receivables have been reviewed and have resulted in no credit-impaired receivables and therefore no additional provision is necessary. As market is volatile and competitive and because of COVID-19 and associated lockdowns, border control, component constraints, general economy weakened and current credit and market conditions could have impact on the businesses and operating performance and access to debt and equity financing 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. In particular, the Group's finance team will continue to monitor closely business performance, cash position and liquidity, late payments, financial stability, progress of fund raising and credit status of HMD and will take necessary actions to mitigate the risks. The Group believes the credit risk of counterparty non-performance of other customers 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 of 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 which has been lingering.

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 (like the carrying out of downsizing actions in 2020 and continuing optimisation of headcounts) and the Group will dedicate resources to serve all customers and foster and maintain 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. Finally, 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 plan material requirements and 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 affordable business risks that the Group will seek and accept, setting production schedules, making component procurement commitments, optimising asset utilisation and allocating personnel and other resources based on our estimates of our customers' requirements and demand visibility 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 in its financial statements.

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 and price hikes.

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.

2022 Outlook

Chairman Liu Young-way of Hon Hai Technology Group said during a conference call in November 2021 that Foxconn Group was cautious about its 2022 revenue outlook, citing uncertainties surrounding the coronavirus pandemic, inflation, geopolitical tensions and supply chains. Following the Hon Hai Technology Group objective, the Group's future business plan would focus on remaining lean and agile and asset light and margin protection and escalation instead of pure revenue growth and continually monitor the market competition conditions and COVID-19 development and component shortage and supply chain situation and internal operational excellence to respond accordingly and continue to devote resources to enhance R&D capabilities. The Group will continue to face all kinds of risks in 2022 and will continue to dispose idle assets and carry out restructuring works which may result in losses. The risks described below are not the only ones relevant to us or the industry or geographies in which we operate. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect and impair our business, results of operations, financial condition and cash flows and also business of our customers. If any of the following risks, some combination of the following risks or other risks that are not currently known or are now deemed immaterial, actually occur, our business, financial condition and results of operations could suffer. To the extent the COVID-19 pandemic and component shortage can adversely affect our business and financial results, it may also have the effect of heightening many of the other risks described in this section. Unless specified in the relevant risk factors below, we are not in a position to quantify the financial or other implication of any of the risks mentioned in this section. In particular, 2022 risk factors and opportunities include:

Risk factors:

(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. The duration and extent and severity of the effect of COVID-19 on our overseas operation and business and results of operations is not determinable. If the COVID-19 pandemic persists in some locations like India or Vietnam, whether through the outbreak of new virus strains like Omicron or otherwise, further lockdowns and travel disruptions and logjams may occur, factory closures may be required, and those factories may experience lower production levels, additional direct costs and lost revenue. For example, a new COVID-19 variant named Omicron was detected in November 2021 and it has spreading very rapidly in various countries. In addition, if our suppliers experience COVID-19 related closures or reductions in their capacity utilisation levels or traffic jams at borders in the future, we will face the same problem of component shortage and have difficulty sourcing the materials necessary to fulfil production requirements. Any of these factors could have a material adverse effect on business, asset utilisation, order fulfilment, financial condition and results of operations of overseas sites.

    Given the extraordinarily high transmissibility of Omicron, there is growing concern whether this variant will sweep into Asia region leading to major outbreaks. Yet, most economies have not yet seen the dramatic escalation of infection rates and economic disruptions that other parts of the world are currently seeing. Even Hong Kong, shielded by some of the world's toughest external quarantine measures, have seen through its defence and the number of confirmed cases soared since February 2022 and this directly affected the cross border logistics between Hong Kong and China and the container fee increased dramatically. A rapid spread of Omicron across countries like India and Vietnam raises the risk of major production disruptions and

Omicron might prove even more disruptive than past waves and this has exacerbated China-Vietnam border congestion. At borders, trucks have to wait for a long time with release date unclear and this affected the delivery of materials and components to Vietnam and sea shipment of longer delivery time has to be used instead. But at seaport, traffic congestion continues so vessel delay departure. In the second week of March 2022, cities in China like Shenzhen and Dongguan were locked down for one week. All these lengthened manufacturing cycle time and affected production and order fulfilment and unforeseeable risk for supply and logistics with China's Zero COVID-19 policy increases. With slower moving variants, many governments were able to shield essential manufacturing operations, limiting the impact on the output of essential goods and components. As Omicron races through populations at unrivalled speed, even if it presents a somewhat less acute health risk compared to earlier variants, it is still potent enough to deprive Asia's factory of a critical number of workers during their convalescence. On the other hand, even if less severe than other strains, Omicron outbreaks will, at least initially, necessitate lockdowns that inevitably compound the risks to supply chains. But it is fortunate that Omicron will burn itself out even faster than other variants — at least that seems to be the trend in different places. But even then, over a stretch of 6 to 8 weeks, the impact could be severe;

(ii) The COVID-19 pandemic has also impacted our customers and has caused, and may continue to cause, unpredictable reductions or increases in demand for our manufacturing services. For certain periods between March and May 2020 when the COVID-19 pandemic was spreading rapidly in India, various state governments restricted e-commerce companies from selling non-essential items (including mobile phones), which significantly impacted mobile phone sales to end customers and consequently, decreased demand from our key OEM customers. In addition, OEM customers diversified their EMS networks so as to de-risk their supply chain during the COVID-19 pandemic, resulting in a lower share of their business for us. On account of the increase in our operational costs during the pandemic, we bid for new projects conservatively so as to protect our margins, further affecting the volume of new business. Such chaos also happened in 2021. In January of 2022, there was COVID-19 resurgence in the area where our Vietnam operation was located and things got complicated and the factory put effort to run the operation smoothly as much as possible. The factory took all the required actions to protect the safety of its employees while kept running the production continuously. Certain percentage of the direct labours chose to resign and went back to their home town for Lunar new year's family reunion and it impacted the production output in January and February. Local management team offered incentives to retain employees and offered full financial support to infected staff in order to come back after recovery and these actions aimed to run the operation without much impact so that we meet the targeted demand of our customers. Beside the COVID-19 situation, it also faced with the challenges in inbound logistics, in which the China-Vietnam borders were closed for some days and our Vietnam has taken the quick actions and recovery plan like diverting most of the shipment to sea mode and arrange air/Fedex for small parcel package. Let alone the goods stuck at borders will cause further burden to supplier capacity to provide the additional supply. However, we are not exceptional; other companies also are doing the same, leading to further logistics congestion at sea/air-port;

(iii) Component supply shortage continues to be issue of critical importance. These shortages have been particularly acute for the supply of semiconductors and integrated chipsets because of the unprecedented global demand for smartphones, tablets and personal computers necessitated by home-working and the upsurge in e-commerce during the COVID-19 pandemic, and the closure of manufacturing facilities in several regions during the COVID-19 pandemic. Furthermore, integrated chipset manufacturers had diverted their resources away from 4G modules prior to the COVID-19 pandemic in preparation for the production of 5G modules, resulting in difficulties in producing 4G mobile phone products which were in high demand during the COVID-19 pandemic. In addition, there has been a significant amount of stockpiling of semiconductors and integrated chipsets by OEMs in various sectors. In particular, for the second half of 2021, momentum 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 has only further ensured 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 is ahead and adjustment cycle could take another year. Capacity limitation in sea freight and rising inflation threat had brought more uncertainty to demand/supply in second half.

Supply constraint in semiconductor will continue. Current market volatility doesn't allow longer forward visibility. However, given part of the sector is offering improvement, still, it is clear, constraint in some categories will carry on till end of 2022 or later. Dreadfully and fatal to some, since at certain process node, demand and supply went so askew that supply of certain components will be dramatically limited by market optimisation/adjustment, and supply of products built on these components will as well be disastrously limited. As such adjustment came within a very narrow time window, livelihood of the population and businesses prospect built on these products will be compressed without alternative in short term. Key components used in FIH Nokia-branded feature phone product business will unfortunately become victim of such adjustment. Shortage of feature phone chipsets is growingly serious as chipset vendors no longer want to manufacture 2G chipsets and allocate priority production resources to the market popular 4G/5G and next generation chip and feature phone business is facing great challenge for harder to secure 2G chipsets. This shortage has continued through the whole year of 2021 and the impact on feature phone shipment is foreseeable. And supply of feature phone products will be impacted severely in 2022, while remedies are being put in place to rectify the problem, still, improvement is not expected till the second half of 2022.

Although manufacturing of mobile phones is boosted through Make in India's initiative, India is heavily dependent on China for supply of raw materials, components and accessories. Such high dependency on imports with some critical components being produced in China is expected to have significant impact in the future if there is reoccurrence of any similar outbreak. Hence, OEMs based out of India are planning to develop local supply chain in order to follow "China+1" strategy and become self-reliant. 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.

Inflation and logistics constraint have become key challenges in 2022. Cost increase driven by demand and supply historically are being fueled by artificial additives resulting from continuing COVID-19 containment measures and U.S.-China trade conflict. In other words, price may continue to rise even if demand and supply will come into a balance. Disconnect in supply chain is progressing through the adjustment cycle over time, and, now with inflation and logistics constraint come into play, adjustment cycle will apparently be extended to accommodate additional market movers. Complexity can go beyond scale, impact to each commodity can only be fathomed one by one when market finishes the required adjustment.

Moving into 2022, the unfavorable factors of COVID-19 pandemic and semiconductor chip storage will still be existing. 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. As we continue driving for key component supply stability and cost management improvement in maintaining competitive advantage from peers, positive result for business development are expected from customers in feature phone, smart phone, consumer electronics and automotive mechanics business category. The global COVID-19 pandemic changes life style and with the join effects of the more recent controversial subject of Metaverse; AR/VR equipment demand is predicted to increase. Our R&D team has started initiating business relationship with couple of clients in that category, yet the likelihood of immediate contribution to massive production is still low; however, the trend is optimistic in a long run;

(iv) 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. Sales to this customer will continue to drop in 2022 and the Group may need to terminate this part of business. 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 end market is highly competitive and whether new products of our customers can sell well will affect the re-orders to be placed by our customers and whether the customers may cut initial order quantity. As mentioned, the Group has to remain lean and agile and write-off and impair or sell the under-utilised assets and inventories and to carry out rightsizing/restructuring activities in 2020 and the Group has continued such initiatives in 2021 and the scale has been linked to the speed of shrinkage of such business and changes of other businesses and such effort will continue into 2022 and losses will arise from such asset disposition and rightsizing of organisation and optimisation of headcount, subject to (among other things) challenging overall handset market conditions and landscape, geo-political tension, general economy, customers' business conditions and challenging geo-economic environment, margin erosion pressure, pandemic developments, component shortage and price hikes and the Group's business strategy of being asset-light and lean. But as mentioned, the Group will continue to seek new business opportunities and expand in India;

(v) The biggest smartphone market, China, is facing a soft even muted market demand in the beginning of 2022. According to CAICT's latest report issued on 21 March 2022, China's domestic mobile phone shipments were 14.9 million in February 2022, representing a 31.7% decline compared with same period last year. In fact, China's first two months' shipments were not optimal, both facing a double digits decline and accumulated a 27.2% year over year drop in shipments and this can be a great concern for 2022;

(vi) A combination of higher and rebounding consumer demand for goods that have been in short supply and supply chain disruptions (such as container box shortages and port congestion) and more strategic capacity management has driven container freight rates for merchandise coming from China to the U.S. and Europe while a shortage of truck drivers across both the latter regions has exacerbated the problem of getting goods to their final destinations and has led to high prices once those products hit store shelves. Container box shortages and port congestions due to pandemic-related operational disruptions have extended container ships' turnaround times. Border controls and mobility restrictions, unavailability of a global vaccine pass, and pent-up demand from being stuck at home have combined for a perfect storm where global production will be hampered because deliveries are not made in time, costs and prices will rise, and GDP growth worldwide will not be as robust as a result. At some borders (like Vietnam), tighter controls are imposed on custom inspection and more time is needed to obtain custom clearance;

(vii) The mobile phone EMS industry is highly competitive due to surplus capacity in the market, and we face competition from a number of domestic and international EMS providers, as well as the in-house manufacturing and assembly departments of our existing and potential mobile phone OEM customers. Competitors are aggressive to win market share from us by providing lower quotes to our customers. Our OEM customers may also choose to move some or all EMS services in-house, as certain OEMs in the mobile phone sector already have. Our success depends on our ability to design for manufacturing due to the excessive amount of manufacturing knowledges and best practices gathered and to configure, ramp up and ramp down production to respond to new mobile phone innovations, models and consumer trends. We face pricing pressure from mobile phone OEM customers as a result of intense competition in their end markets, their strong bargaining power, emerging technologies, product maturity, local government relations, subsidy and incentives and oversupply of certain products. As a consequence, mobile phone OEM customers are constantly seeking to reduce costs in their supply chain and increasingly impose cost-reduction requirements. While we focus on reducing our costs to address pricing pressure, we face huge pressure to achieve proportionate reductions in costs or sustain our current rate of cost reduction. We expect these pressures on pricing and costs in the mobile phone industry to continue. Any broad-based change in our prices and pricing policies may reduce our revenues and profitability;

(viii) 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 provided allowance for credit losses arising from specific overdue trade receivables during the current period. As mentioned above, HMD is now raising fund and the Company is monitoring closely the progress and evaluate risk to the timely collection of trade receivable and default risk. The Company will continue to closely monitor the situation of those customers with liquidity risk and overdue and take necessary collection actions according to Company policy and make a greater allowance for expected credit losses arising from trade receivables according to requirements of relevant accounting standards. The Company will also monitor closely the implications and impacts of Ukraine war to the business of HMD and its cash flow;

(ix) Possible impairment risk for goodwill arising on the formation of Mobile Drive Group. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss in which the investment is acquired and should be tested for impairment annually;

(x) The war in Ukraine and massive sanctions against Russia have triggered a contraction in global trade, sending food and energy prices sharply higher and forcing the International Monetary Fund to lower its global growth forecast in march 2022. The global lender had already lowered its economic forecasts for the United States, China and the global economy in January, citing risks linked to the COVID-19 pandemic, rising inflation, supply disruptions and U.S. monetary tightening. At the time, it projected global economic growth would reach 4.4% this year, a downgrade of 0.5 percentage point.

As the Ukraine warfare has dragged on for some time, the Group will continue to monitor closely the situations including both the end market and the upstream supplies and the impact of sanction measures like export controls and payment regulations to our customers and volatility of money market and stock market and inflation risk and crude oil price hike, and take necessary and immediate actions in response to any external factor. Logistic service providers one by one stopped operating to Russia ports. Energy prices are going up and air space usage limitations are making routes longer and more expensive. If this crisis becomes long, risk or increasing inflation become inevitable. The Company will also monitor closely the implications and impacts of Ukraine war to the business of HMD and its cash flow.

Opportunities:

(i) Surviving the pandemic through the adoption of digital tools and skills has provided additional flexibility and resilience to deal with uncertainties in the future; this accelerate 5G deployment. While 5G is a mobile communications technology, its impact will be felt both in terms of mobility across geographies as well as in micro-locations such as factories, homes and sites designated for specific use. This includes remote learning and healthcare. Automobile industry is expected to advance rapidly through the predictive intelligence enabled by 5G, smarter cars and the autonomous vehicles has becoming closer to reality. Business opportunities comes with innovation evolution; the Group's ability from product design to final goods delivery along with our well-known manufacturing capability and capacity help us to stand out from our competitors. But of course, it needs time to develop and grow such business.

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. According to the Ericsson Mobility Report published on 30 November 2021, the built-out of 5G networks is continuing to accelerate and, to date, there have been accumulated more than 180 commercial launches across the world. It estimated that 5G networks would cover over 2 billion people by the end of 2021. The report further expected that 5G population coverage would reach around 75% at the end of 2027. In terms of 5G subscriptions, the report indicated 5G telecom subscriptions ascended by 98 million during the third quarter of 2021, to 570 million, and estimated the subscriptions will grow up to more than 660 million by the end of the year. Refer to the rollout of 4G, the 5G subscription is expected to penetrate faster than 4G, which was launched in 2009, resulted from the timely availability of devices from several vendors, the faster decline in the price of 5G devices, and China's early engagement. By the end of 2027, the 5G subscriptions would be accounted for 49% of total mobile subscriptions, with 4.4 billion subscriptions worldwide. The accelerated 5G network penetration rate has given impetus to the growth of smartphone shipment;

(ii) In 2022, the Group continue to acquire new customers in North America on 5G products. In particular, the Group gets into entry of new product category of 5G routers. This new product line will help us expand our portfolio into broadband market segment as well as enterprise segment. 5G coverage expansion is still on the rise and the demand of using 5G for broadband connection (to replace or substitute the fixed line) is increasing and is one key strategy for telecom operators to expand its market leadership. On the other important growth development, the Group has also engaged with one top tier car maker in cellular telematics product development. Such telematics product is another wide expansion of product portfolio and a long term business engagement, i.e., telematics product life cycle is usually 5 to 7 years and is of very high entry barrier. As all new cars are moving to be connected cars, the telematics key part demand will be a fast growing segment.

For both the 5G router and the cellular telematics product, the Group will grow not only on the advanced R&D experiences but also on the advanced manufacturing techniques. In particular, the design and production of telematics product must meet the most stringent quality criteria for cars as the product has to survive for long years of usage. The Group will continue to expand these new product categories into more customers to leverage our technology and experience advancement;

(iii) On 22 December 2021, the Group announced that it proposed to spin-off and separately list BFIH, its Indian subsidiary which is the largest Electronics Manufacturing Services provider in India, on BSE and NSE, which are the two main stock exchanges in India. It is expected that the Proposed Spin-off will involve (i) an offer for subscription by way of an initial public offering of new Equity Shares to be issued by BFIH and (ii) an offer for sale of existing Equity Shares by the Company (through its subsidiary, Wonderful Stars Pte. Ltd.), representing in aggregate up to 25% of the enlarged issued share capital of BFIH immediately upon completion of the Proposed Spin-off (including any exercise of the over-allotment option to be granted to the book running lead managers). It plans to use the net IPO proceeds to fund capital expenditure requirements towards up-gradation and expansion of existing campuses, invest in subsidiary to finance its capital expenditure requirements, fund working capital requirements of the India operation; and general corporate purposes. As per the current progress, BFIH plans to get listed on the Indian stock exchanges by the third quarter of 2022.

The BFIH Group will continue to be accounted for as subsidiaries of the Group upon completion of the Proposed Spin-off and the financial results of the BFIH Group will continue to be consolidated into the accounts of the Group. The effect of the Proposed Spin-off on the future earnings of the Group will depend on, among other things, the return generated from the proceeds raised from the Proposed Spin-off as well as the future business operations of the BFIH Group.

The Proposed Spin-off will be regarded as a transaction with non-controlling interest and the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in BFIH. It is expected that there would be no gain or loss on the deemed disposal and the Proposed Spin-off to be recognised in the Company's consolidated statement of profit or loss and other comprehensive income upon completion of the Proposed Spin-off in accordance with International Financial Reporting Standards 10. The difference between the amount by which the non-controlling interest is adjusted and the net proceeds raised from the Proposed Spin-off will be recorded in equity attributed to the owners of the Company (i.e. other reserve). In addition, as the proportion of the Company's shareholding in BFIH will be diluted immediately upon completion of the Proposed Spin-off, it is expected that the earnings attributable to the owners of the Company contributed by BFIH will decrease while the earnings attributable to non-controlling interests of the Company will increase.

Growth outlook for the Indian electronics industry in 2022 is positive, primarily because market penetration for many electronics products remains very low compared to the global average. Factors such as stable growth outlook for the economy, Digital India programme, rising disposable incomes, changing lifestyles, emerging work from home culture, expansion of organized retails to tier 2 and tier 3 cities, improving electricity and internet infrastructure, and better logistics infrastructure will provide additional impetus to the industry. With changing geo-political landscape, the OEM customer will remain interested in moving the electronics production to the other countries having competitive price, quality and receptiveness. Atmanirbhar Bharat Abhiyaan, or Self-reliant India campaign, launched in May 2020, with larger focus on the CAPEX and R&D will continue to give strong push to the domestic marketplace, which is very significant to India's economic growth. In the next two-three years, high real GDP growth rates will be rare in majority of the economies as they gradually recover from the impact of the COVID-19 pandemic. In 2021, domestic electronics production is estimated to be US$67 billion which includes domestically manufactured electronics components worth US$8 billion and imported components worth US$15 billion. The remaining market, after subtracting the cost of the components and other expenses (logistics, packaging, administrative expenses, etc.), represents the addressable business opportunities for EMS companies in India. The total addressable EMS market in India was valued at INR2,654 billion in 2021 and is expected to grow to

INR3,458 billion in 2022 with a growth rate of 30.3%. However, top threats in the form of supply chain disruptions especially shortage of key components such as chipsets, subsequent waves of COVID-19, predatory pricing by new competitors and talent attrition will continue to linger in 2022.

Looking at the global economy, India has emerged as the fastest growing major economy in the world. The rise in consumption power is expected with the India's overall trend of moving into urbanisation; many international companies has entered this market. The Group has placed our footprint in India enlarge investment in the casing factory & R&D laboratory located in Chennai. In 2022, the Group will initiate the phase 2 of this investment plan to further enhancing the production capacity and capability. We have taken initiation of introducing India local suppliers as a cost reduction method avoid the impact on the consistent raising of the import tariff. India government not only raise import tax rate, it also has place non-tariff barriers to protect domestic suppliers across most sectors. The Group's casing factory will cooperate with the newly set up India local R&D team and FATP factory not only focusing in the core mobile phone business; but also PC/NB/IOT/EV/Smart car products associate with the raise of the digital wave;

(iv) Possible receipt of government compensation when returning land to local municipal; But the amount and timing is not certain yet;

(v) On 21 December 2021, Snapdeal filed the Draft Red Herring Prospectus (DRHP) toward the Securities and Exchange Board of India (SEBI) for the purpose of IPO. Snapdeal stated that the fresh issue amount would be up to INR12,500 million and the Offer for Sale of equity shares would be up to 30,769,600 sold by the existing shareholders. The Group has participated the Offer for Sale and expected to sell up to 17% of its current shareholdings of Snapdeal. The rest of shareholdings will have a six month lock up period post IPO and the investment team will monitor the share price and India stock market performance to liquidate in a timely manner and gain will realized upon disposal. Based on the performance in 2022 and with reference to the valuation carried out by independent professional valuer, the management will assess the fair value of the investment in Snapdeal and the Group will take corresponding adjustment to the fair value change in this investment.

The Company refers to its positive profit alert announcement of 3 December 2021, which referred to the various factors (among others) that attributed to the Group's improved financial performance and, ultimately, the Group's consolidated net profit for the current period. Those factors have partially offset: (i) the negative factors referred to in the Company's announcement dated 12 May 2021; and (ii) the implications from the 2021 risks explained in pages 112 to 115 of the Company's 2021 interim report of 15 September 2021, some of which the Company expects to remain relevant for at least part of 2022.

Given the information that the Company has disclosed to date, including the above in this "Discussion and Analysis" section, and the many variables that can affect the Company's performance, the Company is currently unable to predict meaningfully and with any precision how the Group might perform in the six months ending 30 June 2022 (1H 2022). That said, the Company expects conditions in 1H 2022 to remain challenging and highly uncertain and volatile and, factoring in currently-available information, the Company currently believes there is a realistic likelihood of incurring a loss for 1H 2022.

Over the last several years, the Company has been proactively taking appropriate and reasonable steps to seek to maximise its performance notwithstanding the various challenges over that period. The Company will keep matters under close review as 1H 2022 progresses, and will make further announcement(s), as necessary, to keep its shareholders and potential investors informed.

In the meantime, pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose in due course (which is currently expected to be in or about May 2022) certain unaudited consolidated financial information of the Group for the three months ended 31 March 2022, 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 explain that the Group's quarterly performance may be impacted (possibly significantly) by various factors, including without limitation the following, individually and collectively:

(i) changes in: (1) the handset ecosystem and macro-economic environment (e.g. consumer behaviours, complex geo-politics and increasing geo-political tensions, competition, inflation, and the resilience of the Mainland Chinese economy and of other major economies); (2) the industry; (3) major markets generally; and (4) consumer willingness to spend;

(ii) customers and their strategies and business conditions and the speed with which they recover from the COVID-19 pandemic and further adapt;

(iii) customers' sales performance in their end markets;

(iv) holiday periods (e.g. the Lunar New Year holidays in Mainland China and Vietnam), which can often affect shipments and sales in the first quarter of each year;

(v) the seasonality of sales and the length of the handset replacement cycle;

(vi) product maturity and oversupply of certain products or models. Generally, the Group sees a lengthening of smartphone lifespan, both with existing phones and consumer expectations of future phones, that may be attributable to a slower pace of innovation. Increasing ESG considerations mean that consumers may be more cautious with buying a new phone when their old phone remains usable and new models may not offer material advances that would justify upgrading. That said, some consumers may have replaced their phones early during the COVID-19 pandemic, in which case that could affect future demand;

(vii) customers' credit risks and assessment of adequacy of expected credit loss allowances, product launch or product recalibration strategies and timing; possible cancellation or delay of customer orders or change of production quantities; certain customers' products having short product life time volume; market competitiveness; surplus production capacity and availability of staff and labour; shifts in customers' demand and preferences and propensity to spend (e.g. in-house manufacturing instead of outsourcing); business model changes; timing of ramp down of old phone models and ramp up of new phone models and the length of transition period from old to new phone models; potential decline of sales to a major customer and on-going customer diversification; end consumer behaviours; any broad-based change in the Group's prices and pricing policies may reduce its revenues and profitability;

(viii) business strategy adjustments; customer and sales and product mix changes;

(ix) technology advancement; pace of overseas expansion;

(x) the COVID-19 pandemic and its evolution. The related lockdowns, restrictions and containment have had consequential impacts on the global economy generally. Further, the 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) have, to varying degrees, been relevant. 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 COVID-19 pandemic has adversely impacted on every aspect of human society, businesses are experiencing even more challenging conditions, including those associated with a general economic slowdown. 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 a variety of businesses. Please also refer to the other paragraphs for more on the impacts of the COVID-19 pandemic on the Group and its performance;

(xi) 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 activities 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;

(xii) timing of receipts of agreed reimbursements from customers;

(xiii) factors relating to the supply chain (e.g. component cost increases, extended delivery lead times and shortages) which can affect material sourcing and production planning, order fulfilment, shipment and costs, and inventory (e.g. accumulated inventory may take time to clear and may have to be written-off, thus increasing inventory carrying cost);

(xiv) logjams and border jams which can affect timely shipment of components to factories and phones to overseas customers;

(xv) time needed to configure, ramp up and ramp down production to respond to new mobile phone innovations, models and consumer trends;

(xvi) 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;

(xvii) 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 and support, export controls and bans against the Group's major customers, possible boycott of Chinese-made products and Chinese-based services);

(xviii) booking of income tax payments;

(xix) 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;

(xx) timing of dispositions of equity investments and resulting profits/losses; performance of the Group's associates and its share of those associates' profits/losses; timing of booking of revaluation gains/losses on equity investments; and

(xxi) renewing or meeting the conditions of any tax incentives and credits; granting and timing of receipts 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 Company's management to predict all such factors or to assess their impacts on the Group's business. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business, results of operations, financial condition and cash flows.

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

Environmental Policies and Performance

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

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

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

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

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

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

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

RESERVES

Movements in reserves of the Group during the current period are set out on page 123.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's reserves available for distribution amounted to approximately US$1,653,886,000.

SHARE CAPITAL

Details of movements in share capital during the current period are set out in note 25 to the consolidated financial statements.

During the current period and up to the date of this report of the directors, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 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 91,818,000 shares on the Stock Exchange in cash. 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, whereas the remaining 17,000,000 shares were cancelled on 14 January 2022, in all cases in accordance with the articles of association of the Company in force for the time being (the "Articles"). For details, please refer to the section headed "Purchase, Redemption or Sale of Listed Securities of the Company" below.

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

FINANCIAL SUMMARY

A financial summary of the results of the Group for the last five financial years is set out on page 203.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group during the current period are set out in notes 13 and 15 to the consolidated financial statements, respectively.

BANK LOANS

Details of bank loans are set out in note 24 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

CHIH Yu Yang
KUO Wen-Yi
MENG Hsiao-Yi

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih

Having received written confirmations from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Listing Rules, the Company considers each independent non-executive director to be independent. For details, please refer to the "Independent Non-executive Directors" section of the Company's 2021 corporate governance report, which forms part of the annual report incorporating this report of the directors.

For more details, please refer to the "Other Information — Directors" section of the Company's 2021 interim report as issued and published on 15 September 2021.

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

Pursuant to the approval of the Board on 23 December 2021, the Company granted 6,154,215 shares and 1,174,146 shares to Mr. Chih and Mr. MENG Hsiao-Yi ("Mr. Meng") respectively under the share scheme of the Company adopted by the Board on 17 October 2013 and by the shareholders of the Company on 26 November 2013.

Pursuant to the approval of the Board on 23 December 2021, the fee for each of Mr. LAU Siu Ki ("Mr. Lau"), Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih for serving as an independent non-executive director of the Company was adjusted from HK$20,000 to HK$26,000 (equivalent to approximately US$3,333) per month (less any necessary statutory deductions) with effect from 1 January 2022; in addition, the allowance for Mr. Lau for serving as the chairman of the audit committee, remuneration committee, nomination committee respectively of the Company was adjusted from HK$6,000 to HK$7,800 (equivalent to approximately US$1,000) (less any necessary statutory deductions) with effect from 1 January 2022.

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

SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

DISCLOSURE OF INTERESTS

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

As at 31 December 2021, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
CHIH Yu Yang	The Company	Beneficial owner	26,885,876 *(Note 1)*	0.3357%
	Hon Hai	Beneficial owner	8,075	0.00006%
	CMCS *(Note 2)*	Beneficial owner	1,000	0.0007%
	BFIH	Beneficial owner	12,500,000 *(Note 3)*	0.525%
	BFIH	Other	1 *(Note 4)*	0.00000004%
KUO Wen-Yi	The Company	Interest of spouse	700,000	0.0087%
	Hon Hai	Beneficial owner	1,848	0.00001%
	Hon Hai	Interest of spouse	13	0.0000001%
	BFIH	Beneficial owner	500,000 *(Note 3)*	0.021%
MENG Hsiao-Yi	The Company	Beneficial owner	2,893,084 *(Note 5)*	0.0361%
	BFIH	Beneficial owner	11,000,000 *(Note 3)*	0.462%
	BFIH	Other	1 *(Note 4)*	0.00000004%

Notes:

1. On 23 December 2021, Mr. Chih was granted a share award of 6,154,215 shares in the Company under a share scheme of the Company resulting in him being interested in the 6,154,215 shares as a beneficiary of a trust interested in the Company's shares. This share award was vested on 10 January 2022.

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

3. Such shares are issuable upon exercise of the BFIH share options granted on 23 December 2021 under the BFIH Share Option Scheme adopted by the Company on 28 May 2021.

4. Each of Mr. Chih and Mr. Meng holds 1 share of BFIH as a nominee shareholder on behalf of Wonderful Stars Pte. Ltd. (an indirectly wholly-owned subsidiary of the Company) without any beneficial interest.

5. On 23 December 2021, Mr. Meng was granted a share award of 1,174,146 shares in the Company under a share scheme of the Company resulting in him being interested in the 1,174,146 shares as a beneficiary of a trust interested in the Company's shares. This share award was vested on 10 January 2022.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2021, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to any director of the Company, as at 31 December 2021, shareholders (other than the directors or chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited *(Note 1)*	Beneficial owner	5,081,034,525	63.43%
Hon Hai *(Notes 1 and 2)*	Interest of a controlled corporation	5,081,034,525	63.43%

Notes:

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

2. Mr. Chih, the acting chairman and an executive director of the Company, is a director of a subsidiary and an associate of Hon Hai.

Save as disclosed above, as at 31 December 2021, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration paid/payable to the four members of senior management of the Company (whose biographical details are disclosed in "Profile of Directors and Senior Management" set forth in the Company's 2020 annual report as issued and published on 20 April 2021), one ceasing to be a senior management member of the Company with effect from 1 December 2021, during the current period was within the following bands:

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

CONTINUING CONNECTED TRANSACTIONS

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

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

Purchase Transaction

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

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

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

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

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

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

Product Sales Transaction

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

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Product Sales Agreement (the "Product Sales Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Product Sales Transaction for the three years ending 31 December 2022 at US$3,370,641,000 for 2020, US$4,159,639,000 for 2021 and US$5,133,326,000 for 2022.

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

Non-real Property Lease Expense Transaction

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

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

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

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

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

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

Consolidated Services and Sub-contracting Expense Transaction

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

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

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

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

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

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

Equipment Purchase Transaction

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

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

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

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

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

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

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

Sub-contracting Income Transaction

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

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

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

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

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

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

General Services Expense Transaction

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

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

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

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

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

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

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

Equipment Sale Transaction

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

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

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

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

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

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

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

Lease Expense Transaction

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

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

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

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

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

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

Lease Income Transaction

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

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

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

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

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

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

General Services Income Transaction

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

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

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

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

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

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

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

Annual Consideration

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

Continuing connected transaction	**Paying group**	**Total consideration for the year ended 31 December 2021** (US$'000)
Purchase Transaction	Group	985,096
Product Sales Transaction	Hon Hai Technology Group	2,625,154
Non-real Property Lease Expense Transaction	Group	5,137
Consolidated Services and Sub-contracting Expense Transaction	Group	110,414
Equipment Purchase Transaction	Group	2,413
Sub-contracting Income Transaction	Hon Hai Technology Group	38,182
General Services Expense Transaction	Group	22,031
Equipment Sale Transaction	Hon Hai Technology Group	15,641
Lease Expense Transaction	Group	6,755
Lease Income Transaction	Hon Hai Technology Group	5,863
General Services Income Transaction	Hon Hai Technology Group	983

Annual Review

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

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

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

2. on normal commercial terms or better; and

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

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

For more details, please refer to the "Accountability and Audit" section set out in the Company's 2021 corporate governance report, which forms part of the annual report incorporating this report of the directors.

The related party transactions referred to in note 36 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules, amongst which the Non-real Property Lease Income Transaction (as defined in the Company's announcement dated 9 October 2019) has constituted a *de minimis* continuing connected transaction of the Company. Please refer to "Exempt Continuing Connected Transactions" below.

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

Exempt Continuing Connected Transactions

Reference is made to the announcements of the Company dated 31 January 2013, 17 October 2013, 11 August 2016 and 9 October 2019 and the 2013 and 2015 annual reports of the Company. The transactions contemplated by the RSH Master Sourcing Agreement, the RSH Licence Agreement and the SMS Marketing Licence Agreement (each as defined in the Company's announcement dated 31 January 2013) constituted *de minimis* continuing connected transactions for the Company exempt from the independent shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules. The aforesaid agreements expired and ceased to have effect on 23 January 2022 and from such date, the transactions thereunder ceased to continue.

Reference is also made to the announcement of the Company dated 9 October 2019. The Non-real Property Lease Income Transaction (as defined in the aforesaid announcement) has constituted a *de minimis* continuing connected transaction of the Company exempt from the independent shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules.

SHARE OPTION SCHEMES, SHARE SCHEMES AND SUBSIDIARY SHARE OPTION SCHEMES

Termination of Former Schemes and Mobile Drive Share Option Scheme and Adoption of Existing Schemes and BFIH Share Option Scheme

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

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

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

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

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 of its subsidiaries (the "Subsidiary Share Option Schemes"), namely Mobile Drive Technology Co., Ltd. ("Mobile Drive") and Bharat FIH Limited ("BFIH", formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited). For details, please refer to the Company's circular dated 21 April 2021 and announcement dated 28 May 2021.

Further to the Company's announcement dated 10 December 2021, the joint venture agreement dated 24 August 2021 and entered into by, among others, the Company and Stellantis N.V. (the "Joint Venture Agreement") was completed, upon which Mobile Drive ceased to be a subsidiary of the Company. The share option scheme of Mobile Drive (the "Mobile Drive Share Option Scheme") was terminated, for more details, please refer to notes 31 and 38(c) to the consolidated financial statements. No share option has been granted under the Mobile Drive Share Option Scheme since its implementation.

Apart from the Existing Share Option Scheme, the Existing Share Scheme, the Subsidiary Share Option Schemes and potential entitlements pursuant to Hon Hai's articles of incorporation (pursuant to which, among other things, Hon Hai shares may be distributed as part of compensation to employees, including the Company's directors, upon and subject to the terms and conditions set out therein) and also potential entitlements to any and all scrip dividends (which any director of the Company may from time to time have as a shareholder of the Company and/or Hon Hai in respect of the relevant shares then held by him/her) pursuant to any scrip dividend scheme in respect of any dividend as may be announced by the Company and/or Hon Hai from time to time, at no time during the current period was the Company, any of its subsidiaries, its holding company or any subsidiaries of the Company's holding company a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

Please also refer to note 38 to the consolidated financial statements.

Summary of Principal Terms of Existing Share Option Scheme

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

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

The total number of shares in respect of which options may be granted under the Existing Share Option Scheme shall be 757,380,227 shares, representing approximately 9.48% of the total number of issued shares of the Company as at the date of this report of the directors.

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

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

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

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

Please also refer to note 38 to the consolidated financial statements.

Summary of Principal Terms of Mobile Drive Share Option Scheme (Terminated)

Mobile Drive adopted the Mobile Drive Share Option Scheme on 28 May 2021 following the passing of an ordinary resolution approving the same by the shareholders of the Company at the annual general meeting of the Company held on 28 May 2021. The Mobile Drive Share Option Scheme was originally intended to be valid and effective for a period of 10 years from 28 May 2021 until 27 May 2031, unless otherwise terminated in accordance with its terms.

The purpose of the Mobile Drive Share Option Scheme was to attract and retain capable and skilled and experienced personnel, to incentivize them to remain with Mobile Drive and its subsidiaries (the "Mobile Drive Group") and to give effect to the Mobile Drive Group's customer-focused and performance-driven corporate culture, and to motivate them to strive for the future development and expansion and long-term success of the Mobile Drive Group, by providing them with the opportunity to acquire equity interests in Mobile Drive.

Subject to the terms of the Mobile Drive Share Option Scheme, the board of directors of Mobile Drive (or its duly authorised committee, officer(s) or delegate(s)) may, at its absolute discretion, offer to grant to any employees (including directors and members of senior management), and the third party service providers (including directors, members of senior management and other employees of the Group as well as employees of Hon Hai and its subsidiaries, other than the Group (including the Mobile Drive Group)), of the Mobile Drive Group (collectively, the "Mobile Drive Eligible Persons") options to subscribe for Mobile Drive shares on the terms set out in the Mobile Drive Share Option Scheme.

The total number of Mobile Drive shares in respect of which options may be granted under the Mobile Drive Share Option Scheme shall be 5,900,000 shares, representing 10% of the total number of issued shares of Mobile Drive as at the date of its termination.

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

The minimum period for which the options must be held before they can be exercised and the period within which the options must be exercised (the "Mobile Drive vesting period") will be specified by the board of directors of Mobile Drive (or its duly authorised committee, officer(s) or delegate(s)) at the time of the offer of grant. The Mobile Drive vesting period is up to six years (or such other period which must not be more than 10 years from the date of grant of the relevant options) as determined by the board of directors of Mobile Drive (or its duly authorised committee, officer(s) or delegate(s)) at the time of granting the relevant options. An offer of grant of an option under the Mobile Drive Share Option Scheme must be accepted by the date being a date not more than 30 days after the date of the offer. The amount payable on acceptance of an option is New Taiwan Dollars (NT$) 5.00.

The amount payable for each Mobile Drive share to be subscribed for upon exercise of an option under the Mobile Drive Share Option Scheme shall be determined by the board of directors of Mobile Drive in its absolute discretion and notified to a Mobile Drive Eligible Person, after having taken into account (among other things) the nominal value and then market value of a Mobile Drive share, provided that such amount shall not be lower than the nominal value of a Mobile Drive share.

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

As mentioned above, the Mobile Drive Share Option Scheme had been terminated upon the completion of the Joint Venture Agreement.

Please also refer to note 38 to the consolidated financial statements.

Summary of Principal Terms of BFIH Share Option Scheme

BFIH adopted a share option scheme (the "BFIH Share Option Scheme") on 28 May 2021 following the passing of an ordinary resolution approving the same by the shareholders of the Company at the annual general meeting of the Company held on 28 May 2021. The BFIH Share Option Scheme shall be valid and effective for a period of 10 years from 28 May 2021 until 27 May 2031, unless otherwise terminated in accordance with its terms.

The purpose of the BFIH Share Option Scheme is to attract and retain capable and skilled and experienced personnel, to incentivize them to remain with BFIH and its subsidiaries (the "BFIH Group") and to give effect to the BFIH Group's customer-focused and performance-driven corporate culture, and to motivate them to strive for the future development and expansion and long-term success of the BFIH Group, by providing them with the opportunity to acquire equity interests in BFIH.

Subject to the terms of the BFIH Share Option Scheme, the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) may, at its absolute discretion, offer to grant to (a) the employees (including directors (other than independent directors) and members of senior management of the BFIH Group; and (b) the third party service providers of the BFIH Group, comprising the employees (including directors (other than independent directors or the foreign equivalent) and members of senior management) of a direct or indirect holding company (as defined under the India Companies Act) of BFIH (including, for the avoidance of doubt, the Company and Hon Hai), but excluding in both cases: (i) an employee who is a promoter or a person belonging to the promoter group; and (ii) a director who either himself or through his relative or through any body corporate, directly or indirectly, holds more than 10% of the outstanding/issued equity shares of BFIH or its relevant subsidiary or such holding company (as the case may be) (collectively, the "BFIH Eligible Persons") options to subscribe for BFIH shares on the terms set out in the BFIH Share Option Scheme.

The total number of BFIH shares in respect of which options may be granted under the BFIH Share Option Scheme shall be 238,094,498 shares, representing 10% of the total number of issued shares of BFIH as at the date of this report of the directors.

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

The minimum period for which the options must be held before they can be exercised and the period within which the options must be exercised (the "BFIH vesting period") will be specified by the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) at the time of the offer of grant. The BFIH vesting period is from a minimum of one year and up to six years (or such other period which must not be less than one year nor more than 10 years from the date of grant of the relevant options) as determined by the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) at the time of granting the relevant options. An offer of grant of an option under the BFIH Share Option Scheme must be accepted by the date being a date not more than 30 days after the date of the offer. No amount is payable on acceptance of an option.

The amount payable for each BFIH share to be subscribed for upon exercise of an option under the BFIH Share Option Scheme shall be determined by the board of directors of BFIH in its absolute discretion and notified to a BFIH Eligible Person, after having taken into account (among other things) the nominal value and then market value of a BFIH share, provided that such amount shall not be lower than the nominal value of a BFIH share.

Please also refer to note 38 to the consolidated financial statements.

Movements of BFIH Share Options

Movements of BFIH share options granted under the BFIH Share Option Scheme during the current period were as follows:

		Number of share options									
Grantee(s)	Date of grant of share options (dd.mm.yyyy)	At date of grant	At 1 January 2021	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2021	Vesting period	Exercise period (dd.mm.yyyy)	Total consideration paid for share options granted INR	Exercise price of share options INR (per share)
Directors of the Company *(Notes a & b)*											
CHIH Yu Yang (also acting as chief executive officer)	23.12.2021	12,500,000	–	12,500,000	–	–	12,500,000	1–3 years	23.12.2022 to 30.11.2029	–	20.00
KUO Wen-Yi	23.12.2021	500,000	–	500,000	–	–	500,000	1–3 years	23.12.2022 to 30.11.2029	–	20.00
MENG Hsiao-Yi	23.12.2021	11,000,000	–	11,000,000	–	–	11,000,000	1–3 years	23.12.2022 to 30.11.2029	–	20.00
Employees (other than Directors of the Company) *(Notes a & c)*	01.12.2021	59,110,000	–	59,110,000	–	–	59,110,000	1–3 years	01.12.2022 to 30.11.2029	–	20.00
Total		83,110,000	–	83,110,000	–	–	83,110,000				

Notes:

(a) The validity period of the above share options shall commence from the vesting date of the option granted and end within 5 years post vesting of the above share options, subject to any early lapse thereof in accordance with the BFIH Share Option Scheme.

(b) The above share options granted on 23 December 2021 shall be exercisable during the following periods (subject to the fulfillment of certain vesting conditions, if applicable):

(i) the first tranche (representing 30% of the above share options) shall be exercisable from 23 December 2022 to 30 November 2027 (both dates inclusive);

(ii) the second tranche (representing 30% of the above share options) shall be exercisable from 1 December 2023 to 30 November 2028 (both dates inclusive); and

(iii) the third tranche (representing 40% of the above share options) shall be exercisable from 1 December 2024 to 30 November 2029 (both dates inclusive).

(c) The Company refers to the announcement (the "2021 Announcement") of the Company dated 23 December 2021 regarding the grant of BFIH share options to three executive directors of the Company (the "Three Executive Directors") and the BFIH Eligible Persons other than the Three Executive Directors (the "Other BFIH Eligible Persons"). The Company would like to clarify that BFIH has granted a total number of 83,110,000 BFIH share options to the Three Executive Directors and Other BFIH Eligible Persons as at 31 December 2021, amongst which 24,000,000 BFIH share options were granted to the Three Executive Directors on 23 December 2021, while 59,110,000 BFIH share options were granted to the Other BFIH Eligible Persons (being certain employees of the Group) on 1 December 2021.

Such share options granted on 1 December 2021 shall be exercisable during the following periods (subject to the fulfillment of certain vesting conditions, if applicable):

(i) the first tranche (representing 30% of the above share options) shall be exercisable from 1 December 2022 to 30 November 2027 (both dates inclusive);

(ii) the second tranche (representing 30% of the above share options) shall be exercisable from 1 December 2023 to 30 November 2028 (both dates inclusive); and

(iii) the third tranche (representing 40% of the above share options) shall be exercisable from 1 December 2024 to 30 November 2029 (both dates inclusive).

Save as stated above, other information contained in the 2021 Announcement relating to grant of BFIH share options to the Three Executive Directors remains unchanged.

Save as disclosed above, there was no option granted under the BFIH Share Option Scheme during the current period.

Please also refer to note 38 to the consolidated financial statements.

Information on Existing Share Scheme

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

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

The Existing Share Scheme provides (among other things) that: (a) for grants to the beneficiaries who are not connected persons (as defined in the Listing Rules) of the Company, the trustee for the Existing Share Scheme (being a professional institution) shall subscribe, on behalf of the beneficiaries, for new shares at nominal value from the Company; and (b) for grants to the beneficiaries who are connected persons of the Company, the trustee shall purchase, on behalf of the beneficiaries, shares from the market. For details about the trustee for the Existing Share Scheme, please refer to the Company's circular as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

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

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

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

At the Company's annual general meeting held on 28 May 2021, an ordinary resolution was passed to grant a general mandate to the Board (or its duly authorised officer(s) or delegate(s)) to allot, issue and deal with additional shares under the Existing Share Scheme not exceeding 2% of the total number of issued shares of the Company as at the date of such meeting, amounting to an aggregate of 161,696,360 shares.

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

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

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

No shares of the Company were granted under the Existing Share Scheme in 2019 and 2020.

Pursuant to the approval of the Board on 23 December 2021, the Company offered 7,328,361 ordinary shares to a total of 2 beneficiaries pursuant to the Existing Share Scheme, of which 7,328,361 ordinary shares were granted with lock-up periods up to 10 January 2022 from the grant date. No consideration was payable on acceptance of offer of the shares. 7,328,361 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in January 2022.

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

As at 15 March 2022, the total issued share capital of the Company comprised 7,993,000,000 shares of US$0.04 each. Subject to the passing of an ordinary resolution approving the Scheme Mandate and on the basis that no shares will be issued, purchased or bought back prior to the forthcoming annual general meeting, exercise in full of the Scheme Mandate will result in 159,860,000 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$0.88 per share as at 15 March 2022 and the Scheme Mandate being exercised in full, the aggregate market value of the 159,860,000 shares to be allotted and issued pursuant thereto would be approximately HK$140,676,800. The Company expects that the costs attributable to the grant of any shares under the Existing Share Scheme will be accounted for by reference to the market value of such shares at the time of grant. The Company will give due consideration to any financial impact arising from the grant of shares under the Existing Share Scheme before exercising the Scheme Mandate.

Please also refer to note 38 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the current period, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 93.5% of the Group's total revenue from sales of goods and rendering of services for the current period and revenue from sales of goods and rendering of services to the Group's largest customer amounted to approximately 30.7%. Purchases from the Group's five largest suppliers accounted for approximately 56.1% of the Group's total purchases for the current period and purchases from the Group's largest supplier amounted to approximately 24.8%.

None of the directors of the Company or any of their close associates (as defined in the Listing Rules) or any shareholder (which, to the best knowledge of the directors, owns more than 5% of the total number of issued shares of the Company as at the date of this report of the directors) had any interest in any of the Group's five largest customers and five largest suppliers, except that the Hon Hai Technology Group is one of the Group's five largest suppliers as well as one of the Group's five largest customers, and Mr. Chih and Dr. Kuo, both being executive directors of the Company, have interests in Hon Hai as more particularly described in the section headed "Disclosure of Interests" of this report of the directors.

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period and up to the date of this report of the directors, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 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 91,818,000 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK$116,480,570.00. 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, whereas the remaining 17,000,000 shares were cancelled on 14 January 2022, in these cases in accordance with the Articles. For details relating to the Buy-back Mandate, please refer to the explanatory statement of the Buy-back Mandate set out in Appendix I to the Company's circular dated 21 April 2021.

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
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
22 December 2021	1,913,000	1.24	1.24	2,372,120.00
23 December 2021	1,354,000	1.27	1.26	1,719,390.00
30 December 2021	2,000,000	1.35	1.34	2,695,000.00
31 December 2021	1,733,000	1.36	1.35	2,340,160.00
5 January 2022	4,034,000	1.39	1.38	5,591,920.00
6 January 2022	1,755,000	1.40	1.37	2,415,570.00
7 January 2022	4,211,000	1.41	1.39	5,892,750.00
	91,818,000			116,480,570.00

For details about each of the above share buy-backs and share cancellations, please refer to the next day disclosure returns and monthly returns as issued and published from 7 June 2021 to 7 February 2022 (both dates inclusive).

The Board believes that the value of the Company's shares traded on-market was undervalued. Accordingly, the Board is of the view that the above share buy-backs is in the interests of the Company and its shareholders as a whole.

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

PRE-EMPTIVE RIGHTS

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

PENSION SCHEMES

Details of the Group's pension schemes and the basis of calculation are set out in note 37 to the consolidated financial statements.

TAX RELIEF

The Company is not aware of any relief on taxation available to its shareholders by reason of their holding of the shares of the Company. If the shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising any rights in relation to the shares of the Company, they are advised to consult independent professional adviser(s).

AUDIT COMMITTEE

The Company has established and maintained an audit committee in accordance with the requirements of the Listing Rules, particularly the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (now known as the Corporate Governance Code taking effect from 1 January 2022 onwards) (the "CG Code"). Its primary duties are to review the Group's financial reporting process and internal control and enterprise risk management systems, nominate and monitor external auditor and provide advice and comments to the Board. The audit committee comprises three independent non-executive directors (among whom one of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules).

The audit committee has reviewed the audited consolidated financial statements of the Group for the current period and the annual report incorporating this report of the directors and recommended the same to the Board for approval.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the current period, in compliance with the code provisions set out in the CG Code (being the past version effective up to 31 December 2021 which shall remain applicable to the Company in respect of the current period).

For more details, please refer to the Company's 2021 corporate governance report, which forms part of the annual report incorporating this report of the directors.

AUDITOR

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

On behalf of the Board

CHIH Yu Yang
Acting Chairman

15 March 2022

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of FIH Mobile Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 120 to 202, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current year. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KEY AUDIT MATTER *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Allowance for inventories	
We identified allowance for inventories as a key audit matter due to the critical judgment exercised by the Group's management in identifying the slow-moving and obsolete inventories and assessing the amount of allowance for inventories. As disclosed in note 4 to the consolidated financial statements, the Group's management reviews the future sales plan and the inventory aging list to identify slow-moving and obsolete inventories that are no longer suitable for use in operation and then estimates the net realisable value based on the estimated selling prices and market condition to the extent that such condition exists at the end of reporting period, less the estimated cost of completion and costs necessary to make the sale. As at 31 December 2021, the carrying amount of inventories, net of allowance, was US$850,592,000 and write-down on inventories of US$28,333,000 was recognised for the year ended 31 December 2021 to write-down relevant inventories to net realisable value.	Our procedures in relation to evaluating the appropriateness of the allowance for inventories included: • Understanding how the Group's management identifies the slow-moving and obsolete inventories and assesses the amount of allowance for inventories; • Evaluating the appropriateness of the basis of identification of the slow-moving and obsolete inventories; • Engaging the component auditors to test the accuracy of the aging analysis of inventories, on a sample basis; • Engaging the component auditors to evaluate the historical accuracy of allowance for inventories by comparing the actual loss to historical allowance recognised; and • Engaging the component auditors to assess the reasonableness of the amount of allowance for inventories, on a sample basis.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
15 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	**2021 US$'000**	2020 US$'000
Revenue	5	**8,582,559**	8,934,746
Cost of sales		**(8,358,154)**	(8,839,541)
Gross profit		**224,405**	95,205
Other income, gains and losses	6	**161,768**	159,161
Impairment loss recognised for property, plant and equipment		**(12,171)**	(29,650)
Selling expenses		**(13,564)**	(15,159)
General and administrative expenses		**(173,924)**	(178,212)
Research and development expenses		**(106,362)**	(172,412)
Interest expenses		**(8,877)**	(12,184)
Share of (loss) profit of associates		**(1,117)**	4,274
Profit (loss) before tax	7	**70,158**	(148,977)
Income tax expense	10	**(13,735)**	(24,859)
Profit (loss) for the year		**56,423**	(173,836)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value gain on investments in equity instruments at fair value through other comprehensive income		**16,887**	40,589
Remeasurement of defined benefit pension plans		**335**	241
		17,222	40,830
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**30,256**	122,417
Reclassification of cumulative translation reserve upon deemed disposal of subsidiaries	31	**(173)**	–
Share of translation reserve of associates		**(1,379)**	2,030
		28,704	124,447
Other comprehensive income for the year, net of income tax		**45,926**	165,277
Total comprehensive income (expense) for the year		**102,349**	(8,559)
Profit (loss) for the year attributable to:			
Owners of the Company		**56,328**	(173,939)
Non-controlling interests		**95**	103
		56,423	(173,836)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**102,165**	(9,081)
Non-controlling interests		**184**	522
		102,349	(8,559)
Earnings (loss) per share	12		
Basic		**US0.70 cent**	(US2.13 cents)
Diluted		**US0.70 cent**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Non-current assets			
Property, plant and equipment	13	**813,658**	887,955
Right-of-use assets	14	**60,210**	79,825
Investment properties	15	**14,655**	17,142
Financial assets at fair value through profit or loss			
— Equity instruments		**1,900**	–
Financial assets at fair value through other comprehensive income	16		
— Equity instruments		**225,339**	205,549
Interests in associates	17	**20,891**	34,244
Interests in joint ventures	18	**40,000**	–
Deferred tax assets	19	**22,132**	20,383
Deposit for acquisition of right-of-use assets		**29,881**	29,214
		1,228,666	1,274,312
Current assets			
Inventories	20	**850,592**	608,697
Trade and other receivables	21	**2,001,387**	2,354,227
Bank deposits	28	**14,327**	15,506
Bank balances and cash	28	**1,884,719**	1,779,332
		4,751,025	4,757,762
Current liabilities			
Trade and other payables	22	**2,732,383**	2,760,474
Contract liabilities		**105,207**	115,668
Lease liabilities	23	**5,033**	4,773
Bank borrowings	24	**857,490**	929,068
Provision	29	**6,323**	9,499
Tax payable		**71,849**	89,804
		3,778,285	3,909,286
Net current assets		**972,740**	848,476
Total assets less current liabilities		**2,201,406**	2,122,788

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	**2021 US$'000**	2020 US$'000
Capital and reserves			
Share capital	*25*	**320,400**	325,800
Reserves	*26*	**1,839,560**	1,749,632
Equity attributable to owners of the Company		**2,159,960**	2,075,432
Non-controlling interests		**7,309**	6,636
Total equity		**2,167,269**	2,082,068
Non-current liabilities			
Deferred tax liabilities	*19*	**6,715**	11,504
Deferred income	*30*	**9,279**	9,778
Lease liabilities	*23*	**18,143**	19,438
		34,137	40,720
		2,201,406	2,122,788

The consolidated financial statements on pages 120 to 202 were approved and authorised for issue by the board of directors on 15 March 2022 and are signed on its behalf by:

CHIH YU YANG
DIRECTOR

MENG HSIAO-YI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to owners of the Company												
	Share capital	Share premium	Shares bought-back pending cancellation	Special reserve	Revaluation reserve	Other reserve	Legal reserve	Translation reserve	Share compensation reserve	Retained profits	Total	Non-controlling interests	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
				(note 26)	*(note b)*	*(note a)*	*(note 26)*						
Balance at 1 January 2020	328,456	1,203,080	(1,554)	15,514	(44,875)	(981)	172,981	(12,667)	–	434,532	2,094,486	6,114	2,100,600
(Loss) profit for the year	–	–	–	–	–	–	–	–	–	(173,939)	(173,939)	103	(173,836)
Other comprehensive income for the year	–	–	–	–	40,589	241	–	124,028	–	–	164,858	419	165,277
Total comprehensive income (expense) for the year	–	–	–	–	40,589	241	–	124,028	–	(173,939)	(9,081)	522	(8,559)
Repurchase of ordinary shares *(note 25)*	–	–	(9,973)	–	–	–	–	–	–	–	(9,973)	–	(9,973)
Cancellation of ordinary shares *(note 25)*	(2,656)	(6,125)	8,781	–	–	–	–	–	–	–	–	–	–
Profits appropriations	–	–	–	–	–	–	1,788	–	–	(1,788)	–	–	–
Balance at 31 December 2020	**325,800**	**1,196,955**	**(2,746)**	**15,514**	**(4,286)**	**(740)**	**174,769**	**111,361**	**–**	**258,805**	**2,075,432**	**6,636**	**2,082,068**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**56,328**	**56,328**	**95**	**56,423**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**16,887**	**335**	**–**	**28,615**	**–**	**–**	**45,837**	**89**	**45,926**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**16,887**	**335**	**–**	**28,615**	**–**	**56,328**	**102,165**	**184**	**102,349**
Repurchase of ordinary shares *(note 25)*	**–**	**–**	**(18,150)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,150)**	**–**	**(18,150)**
Cancellation of ordinary shares *(note 25)*	**(5,400)**	**(14,326)**	**19,726**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profits appropriations	**–**	**–**	**–**	**–**	**–**	**–**	**1,650**	**–**	**–**	**(1,650)**	**–**	**–**	**–**
Recognition of equity settle share-based payment *(note 38)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**513**	**–**	**513**	**489**	**1,002**
Balance at 31 December 2021	**320,400**	**1,182,629**	**(1,170)**	**15,514**	**12,601**	**(405)**	**176,419**	**139,976**	**513**	**313,483**	**2,159,960**	**7,309**	**2,167,269**

Notes:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 US$'000	2020 US$'000
OPERATING ACTIVITIES			
Profit (loss) before tax		**70,158**	(148,977)
Adjustments for:			
Depreciation and amortisation		**189,360**	196,278
Write-down of inventories		**28,333**	59,289
Loss on disposal and write-off of property, plant and equipment		**7,268**	12,945
Gain on deemed disposal of subsidiaries	*31*	**(34,915)**	–
Gain on liquidation of investment in a joint venture		**–**	(2,356)
Interest expenses		**8,877**	12,184
Share of loss (profit) of associates		**1,117**	(4,274)
Impairment loss recognised in respect of trade receivables, net		**4,679**	5,956
Impairment loss recognised for property, plant and equipment		**12,171**	29,650
Deferred income released to income		**(714)**	(9,880)
Net fair value gain arising on short-term investments at fair value through profit or loss		**–**	(2,383)
Net fair value gain arising on equity instruments at fair value through profit or loss		**(1,900)**	(1,585)
Interest income		**(35,552)**	(34,732)
Dividend income from equity instruments at fair value through other comprehensive income		**(2,203)**	–
Gain on disposal of investment property		**–**	(626)
Equity-settled share-based payments		**1,002**	–
Operating cash flows before movements in working capital		**247,681**	111,489
(Increase) decrease in inventories		**(265,105)**	147,655
(Increase) decrease in trade and other receivables		**(958,151)**	538,048
Decrease in trade and other payables		**(67,732)**	(1,406,552)
Decrease in contract liabilities		**(10,556)**	(24,958)
Decrease in provision		**(3,311)**	(4,158)
Proceeds from disposal of financial assets at fair value through profit or loss		**1,341,659**	529,054
Cash generated from (used in) operations		**284,485**	(109,422)
Income taxes paid, net		**(38,688)**	(15,568)
Interest received		**35,511**	36,082
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**281,308**	(88,908)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 US$'000	2020 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(118,801)**	(101,735)
Purchase of equity instruments at fair value through other comprehensive income		**(2,791)**	(1,480)
Net cash outflow on deemed disposal of subsidiaries	*31*	**(2,066)**	–
Proceeds on disposal of property, plant and equipment		**33,213**	3,790
Dividend income received from equity instruments at fair value through other comprehensive income		**2,203**	–
Withdrawal of bank deposits for investing purpose		**1,104**	3,056
Purchase of short-term investments		**–**	(355,740)
Proceeds on settlements of short-term investments		**–**	431,016
Proceeds from disposal of equity instruments at fair value through profit or loss		**–**	5,324
Distribution from a joint venture upon liquidation		**–**	2,356
Proceeds from disposal of land use right classified as right-of-use assets		**–**	919
Proceeds from disposal of investment property		**–**	772
NET CASH USED IN INVESTING ACTIVITIES		**(87,138)**	(11,722)
FINANCING ACTIVITIES			
Bank borrowings raised		**2,625,735**	5,046,888
Bank borrowings repaid		**(2,699,389)**	(4,723,535)
Payments on repurchase of ordinary shares		**(18,150)**	(9,973)
Interest on bank borrowings paid		**(7,317)**	(12,196)
Repayments of lease liabilities		**(10,638)**	(21,378)
Interest on lease liabilities paid		**(1,123)**	(1,266)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(110,882)**	278,540
NET INCREASE IN CASH AND CASH EQUIVALENTS		**83,288**	177,910
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,779,332**	1,545,269
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**22,099**	56,153
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**1,884,719**	1,779,332

1. GENERAL

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

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. The Group provides a wide range of manufacturing services to its customers in connection with the production of handsets. The principal activities of its principal subsidiaries are set out in note 39.

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

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

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

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the IASB issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

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

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to IAS 8	Definition of Accounting Estimates[3]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[2]

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

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

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

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

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

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

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

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

Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" *(Continued)*

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

Based on the Group's outstanding liabilities as at 31 December 2021, the application of the amendments will not result in reclassification of the Group's liabilities.

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

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

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

Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 "Income Taxes" ("IAS 12") so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, the Group applies IAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognised due to application of the initial recognition exemption.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to US$21,308,000 and US$23,176,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

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

3.1 Basis of preparation of consolidated financial statements

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

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

3.2 Significant accounting policies

Basis of consolidation

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates and joint ventures

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers

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

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

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

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

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

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

A point in time revenue recognition

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

Principal versus agent

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

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

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

Leases

Definition of a lease

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

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

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

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee

Allocation of consideration to components of a contract

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

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

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

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

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Right-of-use assets *(Continued)*

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

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

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

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

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Lease liabilities *(Continued)*

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

Lease modifications

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

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

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

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

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

The Group as a lessor

Classification and measurement of leases

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

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

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessor (Continued)

Classification and measurement of leases *(Continued)*

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

Refundable rental deposits

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

Sublease

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

Lease modification

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

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

Foreign currencies

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

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

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

3.2 Significant accounting policies *(Continued)*

Foreign currencies *(Continued)*

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

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

Borrowing costs

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

Government grants

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

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

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

Short-term and other long-term employee benefits

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

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

3.2 Significant accounting policies *(Continued)*

Short-term and other long-term employee benefits *(Continued)*

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

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

Share-based payment arrangements

Equity-settled share-based payment transactions

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Taxation

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

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

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

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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

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

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

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

Property, plant and equipment

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

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

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

Investment properties

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

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

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

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

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Provisions

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

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

3.2 Significant accounting policies *(Continued)*

Provisions *(Continued)*

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

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

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets
Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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

A financial asset is held-for-trading if:

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets *(Continued)*

(iii) Financial assets at FVTPL

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

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

Impairment of financial assets subject to impairment assessment under IFRS 9

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

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

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

The Group always recognises lifetime ECL for trade receivables.

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

(i) Significant increase in credit risk

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 *(Continued)*

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

(ii) Definition of default

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

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 *(Continued)*

(iii) Credit-impaired financial assets

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

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

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 *(Continued)*

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

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

Derecognition of financial assets

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities at amortised cost

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Derecognition of financial liabilities

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

Derivative financial instruments

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

Offsetting a financial asset and a financial liability

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Timing of revenue recognition

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

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

Critical judgements in applying accounting policies *(Continued)*

Significant influence over interest in an associate

Although the Group has less than 20% equity interests in Diabell Co., Ltd. ("Diabell"), the management considers the Group has significant influence over Diabell by virtue of its right to appoint one out of five directors to the board of directors of Diabell (see note 17).

Key sources of estimation uncertainty

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

Estimated allowance for inventories

The Group's management reviews the future sales plan and the inventory aging list to identify slow-moving and obsolete inventories that are no longer suitable for use in operation and then estimates the net realisable value based on the estimated selling prices and market condition to the extent that such condition exists at the end of reporting period, less the estimated cost of completion and costs necessary to make the sale. Where the net realisable value is less than the carrying amount, impairment loss will arise. As at 31 December 2021, the carrying amount of inventories is approximately US$850,592,000 (2020: US$608,697,000) and write-down on inventories of US$28,333,000 (2020: US$59,289,000) has recognised for the year ended 31 December 2021.

Income taxes

As at 31 December 2021, a deferred tax asset of US$3,986,000 (2020: US$6,959,000) in relation to unused tax losses of US$13,286,000 (2020: US$23,196,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of US$2,047,227,000 (2020: US$2,037,439,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

During the year ended 31 December 2021, no deferred tax has been provided for the undistributed profits of US$914,615,000 (2020: US$986,276,000) in subsidiaries in the People's Republic of China (the "PRC") as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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

Key sources of estimation uncertainty *(Continued)*

Income taxes *(Continued)*

Deferred tax assets were recognised for other deductible temporary differences of approximately US$62,566,000 (2020: US$37,356,000) on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses. At 31 December 2021, the Group has not recognised deductible temporary differences on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$101,194,000 (2020: US$98,539,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in the Group being unable to control the timing of the reversal of the temporary difference, a material reversal or further recognition of deferred tax assets or liabilities may arise, which would be recognised in profit or loss for the period in which such a reversal or recognition takes place.

Estimated impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount. The recoverable amounts, being the fair value less costs to sell, of the relevant assets have been estimated individually by the Group's management. In estimating the fair value of these assets, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group will first consider and adopt Level 2 inputs where inputs can be observable, other than quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. As at 31 December 2021, the carrying amounts of property, plant and equipment were US$813,658,000 (2020: US$887,955,000), after taking into account the impairment losses of US$12,171,000 (2020: US$29,650,000) that have been recognised. Details of the impairment of property, plant and equipment are disclosed in note 13.

5. REVENUE AND SEGMENT INFORMATION

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

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results

The Group's revenue is from contracts with customers and mainly arising from the manufacturing services (including sales of goods and processing service) amounting to US$8,582,559,000 (2020: US$8,934,746,000) to its customers in connection with the production of handsets.

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

As at 1 January 2020, contract liabilities amounted to US$140,249,000. All the contract liabilities at the beginning of the reporting period were included in the revenue recognised in the reporting period.

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

	2021 **US$'000**	2020 US$'000
Segment revenue (external sales)		
Asia	**6,576,070**	7,890,795
Europe	**794,437**	537,306
America	**1,212,052**	506,645
Total	**8,582,559**	8,934,746
Segment profit		
Asia	**126,312**	78,081
Europe	**39,545**	14,602
America	**50,720**	21,426
	216,577	114,109
Other income, gains and losses	**156,032**	125,098
Impairment loss recognised for property, plant and equipment	**(12,171)**	(29,650)
General and administrative expenses	**(173,924)**	(178,212)
Research and development expenses	**(106,362)**	(172,412)
Interest expense	**(8,877)**	(12,184)
Share of (loss) profit of associates	**(1,117)**	4,274
Profit (loss) before tax	**70,158**	(148,977)

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

	2021 US$'000	2020 US$'000
Segment assets		
Allocated		
Asia	**1,495,677**	1,938,352
Europe	**96,431**	67,738
America	**336,174**	275,506
Total	**1,928,282**	2,281,596
Unallocated		
Property, plant and equipment	**800,907**	873,061
Inventories	**837,692**	597,135
Cash and bank deposits	**1,704,332**	1,593,116
Others	**391,949**	419,945
Corporate assets	**316,529**	267,221
Consolidated total assets	**5,979,691**	6,032,074
Segment liabilities		
Allocated		
Europe	**291**	763
America	**23,706**	28,966
Total	**23,997**	29,729
Unallocated		
Trade and other payables	**2,707,817**	2,732,024
Others	**143,775**	159,021
Corporate liabilities	**936,833**	1,029,232
Consolidated total liabilities	**3,812,422**	3,950,006

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information

	Year ended 31 December 2021				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	14	595	118,192	118,801
Depreciation and amortisation*	151,587	924	1,597	35,252	189,360
Loss on disposal and write-off of property, plant and equipment	–	–	17	7,251	7,268
Impairment loss recognised for property, plant and equipment	–	–	–	12,171	12,171
Impairment loss recognised on trade receivables	3,911	311	457	–	4,679
Provision for warranty	6,058	–	–	–	6,058
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Net fair value gain arising on equity instruments at FVTPL	–	–	–	1,900	1,900
Gain on deemed disposal of subsidiaries	–	–	–	34,915	34,915
Write-down of inventories to net realisable value	–	–	–	28,333	28,333

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information *(Continued)*

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

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

Geographical information

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

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

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

	Revenue from external customers		Non-current assets	
	2021	2020	**2021**	2020
	US$'000	US$'000	**US$'000**	US$'000
PRC (country of domicile)	**6,188,179**	6,625,879	**692,116**	765,909
India	**2,341,767**	2,254,338	**114,295**	119,967
Mexico	**52,249**	51,950	**11,377**	12,263
Vietnam	**–**	1,595	**91,157**	102,997
USA	**–**	–	**235**	1,285
Other countries	**364**	984	**70,115**	45,959
	8,582,559	8,934,746	**979,295**	1,048,380

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

Information about major customers

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

	2021	2020
	US$'000	US$'000
Customer A[1 & 4]	**2,631,765**	2,292,374
Customer B[1]	**2,553,857**	2,339,276
Customer C[1]	**1,572,514**	N/A[3]
Customer D[1]	**N/A[2]**	2,786,111

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

2 The customer did not contribute over 10% of the total sales of the Group in 2021.

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

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

6. OTHER INCOME, GAINS AND LOSSES

	2021 **US$'000**	2020 US$'000
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank deposits and bank balances	**35,552**	34,732
Service income	**10,432**	34,063
Sales of materials and scraps	**20,531**	9,565
Repairs and modifications of mouldings	**28,746**	28,421
Net foreign exchange gain (loss)	**2,393**	(34)
Government subsidies *(note)*	**28,237**	56,764
Rental income	**10,103**	8,819
Loss on disposal and write-off of property, plant and equipment	**(7,268)**	(12,945)
Gain on disposal of investment properties	**–**	626
Gain on liquidation of investment in a joint venture	**–**	2,356
Impairment loss recognised in respect of trade receivable, net	**(4,679)**	(5,956)
Net fair value gain (loss) on financial assets at FVTPL		
— short-term investments	**–**	2,383
— equity instruments	**1,900**	1,585
— other financial assets	**(496)**	(355)
Dividend income from equity instruments at FVTOCI	**2,203**	–
Gain on deemed disposal of subsidiaries *(note 31)*	**34,915**	–
Others	**(801)**	(863)
	161,768	159,161

Note: This mainly represented subsidies granted for the Group's operations in the PRC. During the year, the Group recognised government grants of US$2,593,000 (2020: US$19,455,000) in respect of COVID-19-related subsidies, of which are mainly employment support scheme provided by local government.

7. PROFIT (LOSS) BEFORE TAX

	2021 US$'000	2020 US$'000
Profit (loss) before tax for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	**177,453**	186,271
Depreciation of right-of-use assets	**9,192**	8,398
Depreciation of investment properties	**2,715**	1,609
Total depreciation and amortisation	**189,360**	196,278
Less: Amount capitalised in inventories	**(154,027)**	(158,594)
Amount included in research and development expenses	**(10,188)**	(9,647)
	25,145	28,037
Staff costs		
Directors' emoluments	**2,338**	1,263
Retirement benefit scheme contributions (excluding directors)	**20,980**	19,618
Other staff costs	**420,616**	454,771
Total staff costs	**443,934**	475,652
Less: Amount capitalised in inventories	**(305,896)**	(269,662)
Amount included in research and development expenses	**(48,159)**	(105,552)
	89,879	100,438
Auditor's remuneration	**1,009**	982
Cost of inventories recognised as expense	**8,323,763**	8,776,876
Provision for warranty	**6,058**	3,376
Write-down of inventories to net realisable value	**28,333**	59,289

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

2021	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance-based or discretionary bonus US$'000 *(Note)*	Other emoluments: Retirement benefit scheme contributions US$'000	Total US$'000
Chih Yu Yang (also acting as the chief executive)	–	165	943	–	1,108
Kuo Wen-Yi	–	450	265	–	715
Lau Siu Ki	31	9	–	–	40
Daniel Joseph Mehan	31	–	–	–	31
Tao Yun Chih	31	–	–	–	31
Meng Hsiao-Yi	–	126	287	–	413
	93	750	1,495	–	2,338

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

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

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

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

Neither the chief executive nor any of the directors waived any emoluments. Neither any of the directors nor the five highest paid individuals (note 9) were paid as compensation for loss of office and as incentive to join or upon joining the Group during the years ended 31 December 2021 and 2020.

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2020: one) executive directors of the Company, whose emoluments are included in note 8 above. The emoluments of the remaining two individuals (2020: four individuals including one who was appointed as director during 2020) were as follows:

	2021 US$'000	2020 US$'000
Salaries, allowances and other benefits	**331**	460
Contributions to pension schemes	**14**	–
Performance-related incentive payments	**328**	1,370
	673	1,830

Their emoluments were within the following bands:

	Number of employees	
	2021	2020
HK$2,500,001 to HK$3,000,000	**2**	2
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**–**	1
	2	4

10. INCOME TAX EXPENSE

	2021 **US$'000**	2020 US$'000
Current tax		
— Hong Kong	**–**	–
— Other jurisdictions	**28,252**	33,823
	28,252	33,823
Overprovision in prior years		
— Hong Kong	**–**	–
— Other jurisdictions	**(7,565)**	(5,708)
	(7,565)	(5,708)
	20,687	28,115
Deferred tax *(note 19)*		
— Current year	**(6,952)**	(3,256)
	13,735	24,859

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

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

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

10. INCOME TAX EXPENSE *(Continued)*

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

	2021 US$'000	2020 US$'000
Profit (loss) before tax	**70,158**	(148,977)
Income tax (credit) at the PRC income tax rate of 25% (2020: 25%) for the year *(note)*	**17,540**	(37,244)
Effect of different tax rates of subsidiaries	**(578)**	(210)
Effect of income taxed at concessionary tax rates	**2,901**	616
Tax effect of expenses not deductible for tax purpose	**9,422**	15,081
Tax effect of income not taxable for tax purpose	**(13,275)**	(7,659)
Tax effect of tax losses/deductible temporary differences not recognised	**5,011**	61,051
Tax effect of share of profit (loss) of associates	**279**	(1,068)
Overprovision in prior years	**(7,565)**	(5,708)
Income tax expense for the year	**13,735**	24,859

Note: The domestic income tax rate of 25% (2020: 25%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

11. DIVIDENDS

No dividend was declared or proposed for the years ended 31 December 2021 and 31 December 2020, and during the reporting period, a special cash dividend from the Company was proposed upon completion of the proposed spin-off of Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited) ("BFIH").

12. EARNINGS (LOSS) PER SHARE

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

	2021 US$'000	2020 US$'000
Profit (loss) attributable to the owners of the Company		
Profit (loss) for the purposes of basic earnings (loss) per share	**56,328**	(173,939)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of subsidiaries on dilution of their earnings per share	**–**	N/A
Earnings for the purpose of diluted earnings per share	**56,328**	N/A

	2021	2020
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (2020: basic loss) per share	**8,047,477,551**	8,149,199,475

The calculation of diluted earnings per share for the year ended 31 December 2021 does not assume the anti-dilutive impact from the share options issued by its subsidiary as detailed in note 38(b). No diluted loss per share was presented in 2020 as there was no potential ordinary shares in issue.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2020	805,836	1,163,987	123,982	18,595	2,112,400
Exchange adjustments	34,801	62,845	3,364	(154)	100,856
Additions	7,059	65,930	4,492	24,254	101,735
Disposals and write-off	(19,793)	(155,146)	(7,264)	–	(182,203)
Transfers to investment properties *(note 15)*	(36,217)	–	–	–	(36,217)
Transfers	–	3,088	227	(3,315)	–
At 31 December 2020	791,686	1,140,704	124,801	39,380	2,096,571
Exchange adjustments	11,226	25,841	758	(76)	37,749
Additions	4,853	94,225	8,986	10,737	118,801
Disposals and write-off	(17,316)	(275,089)	(14,035)	(1,642)	(308,082)
Transfers from right-of-use assets *(note 14)*	–	26,172	–	–	26,172
Transfers	23,823	15,237	1,764	(40,824)	–
At 31 December 2021	814,272	1,027,090	122,274	7,575	1,971,211
DEPRECIATION AND IMPAIRMENT					
At 1 January 2020	395,258	649,449	76,456	–	1,121,163
Exchange adjustments	22,431	37,622	2,368	–	62,421
Charge for the year	46,687	127,918	11,666	–	186,271
Eliminated on disposals and write-off	(18,799)	(141,302)	(5,367)	–	(165,468)
Transfer to investment properties *(note 15)*	(25,421)	–	–	–	(25,421)
Impairment loss recognised in profit or loss	–	29,495	155	–	29,650
At 31 December 2020	420,156	703,182	85,278	–	1,208,616
Exchange adjustments	9,878	9,341	578	–	19,797
Charge for the year	41,297	124,060	12,096	–	177,453
Eliminated on disposals and write-off	(14,111)	(242,478)	(11,012)	–	(267,601)
Transfers from right-of-use assets *(note 14)*	–	7,117	–	–	7,117
Impairment loss recognised in profit or loss	–	12,171	–	–	12,171
At 31 December 2021	457,220	613,393	86,940	–	1,157,553
CARRYING VALUES					
At 31 December 2021	357,052	413,697	35,334	7,575	813,658
At 31 December 2020	371,530	437,522	39,523	39,380	887,955

Included in the land and buildings are freehold land, located in Hungary, Mexico and India, having an aggregate cost of approximately US$9,857,000 (2020: US$10,167,000). All buildings of the Group are situated outside Hong Kong.

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

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

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

At 31 December 2021, the directors of the Company appointed independent professional appraisers to perform appraisals on the Group's property, plant and equipment with impairment indicators, such as changing market environment which result in revenue decrease and assets being idle during the year and determined that a number of those assets were impaired. As a result, impairment losses of US$12,171,000 (2020: US$29,650,000) has been recognised in respect of plant and machinery (2020: plant and machinery and fixtures and equipment) for the year.

14. RIGHT-OF-USE ASSETS

	Leasehold land US$'000	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Total US$'000
As at 31 December 2021					
Carrying amount	38,902	20,536	704	68	60,210
As at 31 December 2020					
Carrying amount	39,366	18,814	21,477	168	79,825
For the year ended 31 December 2021					
Depreciation charge	973	5,601	2,493	125	9,192
For the year ended 31 December 2020					
Depreciation charge	1,009	4,231	2,858	300	8,398

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

	Year ended 31 December 2021 US$'000	Year ended 31 December 2020 US$'000
Expense relating to short-term leases	**36,533**	59,672
Total cash outflow for leases	**48,294**	82,316
Additions to right-of-use assets	**13,890**	17,897

During the year ended 31 December 2021, the Group obtained ownership of certain leased assets with an aggregate carrying amount of US$19,055,000 (2020: nil) at the end of the lease terms, which were subsequently classified as property, plant and equipment. During the year ended 31 December 2020, the Group disposed land use rights in the PRC amounting to US$919,000 (2021: nil). During the year ended 31 December 2020, the Group transferred right-of-use assets to investment properties amounting to US$3,650,000 (2021: nil) as there was a change in use of the property.

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

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

During the year, the Group entered into several (2020: one) new lease agreements for the use of leased properties, machinery and office equipment for one to six years (2020: one to three years). On the lease commencement, the Company recognised US$13,890,000 (2020: US$17,897,000) of right-of-use assets and US$13,890,000 (2020: US$17,897,000) of lease liabilities.

The Group regularly entered into short-term leases for certain premises, motor vehicles and office equipment. As at 31 December 2021 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense incurred during the year.

15. INVESTMENT PROPERTIES

The Group leases out buildings under operating leases with fixed rentals payable monthly. The leases typically run for an initial period of one to three years (2020: one to three years), with unilateral rights to extend the lease beyond initial period held by lessees only.

As at 31 December 2021 and 31 December 2020, certain investment properties are leased to the related parties of the Group but the Group had not contracted with the related parties for any future minimum lease payments.

15. INVESTMENT PROPERTIES *(Continued)*

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

	US$'000
COST	
At 1 January 2020	39,618
Exchange adjustment	1,975
Disposal for the year	(224)
Transfer from property, plant and equipment *(note 13)*	36,217
Transfer from right-of-use assets	5,601
At 31 December 2020	83,187
Exchange adjustment	(2,329)
At 31 December 2021	80,858
DEPRECIATION	
At 1 January 2020	35,653
Exchange adjustment	1,489
Provided for the year	1,609
Disposal for the year	(78)
Transfer from property, plant and equipment *(note 13)*	25,421
Transfer from right-of-use assets	1,951
At 31 December 2020	66,045
Exchange adjustment	(2,557)
Provided for the year	2,715
At 31 December 2021	66,203
CARRYING VALUES	
At 31 December 2021	14,655
At 31 December 2020	17,142

The fair value of the Group's investment properties at 31 December 2021 was US$83,655,000 (2020: US$82,502,000). The fair value has been arrived at based on a valuation carried out by independent valuers not connected with the Group. The fair value was determined by reference to recent market prices for similar properties in the same locations and conditions. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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

16. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 US$'000	2020 US$'000
Equity securities listed in Taiwan *(note a)*	**7,149**	8,312
Equity securities listed in USA *(note a)*	**4,365**	1,755
Unlisted equity securities *(note b)*	**213,825**	195,482
	225,339	205,549

Notes:

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

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

As at 31 December 2021 and 2020, included in unlisted equity securities above, there is the Group's investment in HMD Global Oy ("HMD"), a company incorporated in Finland, which is engaged in the development, manufacture and sale of telecommunication devices, software and related services of approximately US$184,600,000 (2020: US$169,500,000).

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

17. INTERESTS IN ASSOCIATES

	2021 US$'000	2020 US$'000
Cost of investments in associates, less impairment		
Unlisted	**12,357**	12,357
Share of post-acquisition profit and other comprehensive income, net of dividend received	**8,534**	21,887
	20,891	34,244

17. INTERESTS IN ASSOCIATES *(Continued)*

At 31 December 2021 and 2020, the Group had interests in the following associates:

Name of associate	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share/ interest held	Proportion of nominal value of issued capital/ interest held by the Group 2021	2020	Proportion of voting power held by the Group 2021	2020	Principal activity
Diabell *(note)*	Limited company	Republic of Korea ("Korea")	Korea	Ordinary	**19.998%**	19.998%	**20%**	20%	Designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products
Rooti Labs Limited	Limited company	Cayman Islands	Taiwan	Ordinary	**26.05%**	26.05%	**26.05%**	26.05%	Research and development of wearable products
杭州耕德電子有限公司 (also known as Hangzhou Gengde Electronics Co.,Ltd.)	Limited company	PRC	PRC	Equity interest	**35%**	35%	**33.33%**	33.33%	Engaging in the business of design, development and manufacturing of electronic devices and handset accessories

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

Aggregate information of associates that are not individually material

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

	Year ended 31.12.2021 US$'000	Year ended 31.12.2020 US$'000
Total revenue	**292,274**	359,505
Total (loss) profit for the year	**(3,618)**	9,700
Other comprehensive expense	**(4,182)**	(1,902)
Total comprehensive (expense) income	**(7,800)**	7,798
Group's share of (loss) profit and other comprehensive (expense) income of associates for the year	**(2,496)**	6,304

18. INTERESTS IN JOINT VENTURES

	2021 US$'000	2020 US$'000
Cost of unlisted investments in joint ventures, less impairment	**43,060**	3,060
Share of post-acquisition loss and other comprehensive expense	**(3,060)**	(3,060)
	40,000	–

At 31 December 2021 and 2020, the Group had interests in the following joint ventures:

Name of joint venture	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2021	2020	Proportion of voting power held by the Group 2021	2020	Principal activity
FIH RadioShack (Asia) Retail Holdings Limited (in liquidation)	Limited company	Hong Kong	PRC	Ordinary	**51%**	51%	**60% *(note)***	60% *(note)*	Sale of consumer electronics products and ancillary services
Mobile Drive Netherlands B. V. ("Mobile Drive") *(note 31)*	Limited company	Netherlands	Netherlands	Ordinary	**50%**	N/A	**50%**	N/A	Research and development of communication systems, handsets as well as other software, hardware and related systems

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

Summarised financial information of a material joint venture

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

The joint venture is accounted for using the equity method in these consolidated financial statements.

Mobile Drive

	2021 US$'000
Current assets	**57,663**
Non-current assets	**46,679**
Current liabilities	**(16,657)**
Non-current liabilities	**(7,685)**

18. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of a material joint venture *(Continued)*

Mobile Drive *(Continued)*

The above amounts of assets and liabilities include the following:

	2021 US$'000
Cash and cash equivalents	2,066
Current financial liabilities (excluding trade and other payables and provisions)	(3,653)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Mobile Drive recognised in the consolidated financial statements:

	2021 US$'000
Net assets of Mobile Drive	80,000
Proportion of the Group's ownership interest in Mobile Drive	50%
Carrying amount of the Group's interest in Mobile Drive	40,000

19. DEFERRED TAXATION

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

	Allowances for inventories and trade and other receivables US$'000	Warranty provision US$'000	Accelerated tax depreciation US$'000	Tax losses US$'000	Others US$'000 *(note)*	Total US$'000
At 1 January 2020	(3,357)	(599)	9,336	(7,426)	(4,415)	(6,461)
Charge (credit) to profit or loss for the year	1,090	205	(2,404)	58	(2,205)	(3,256)
Exchange adjustments	(42)	(24)	387	409	108	838
At 31 December 2020	(2,309)	(418)	7,319	(6,959)	(6,512)	(8,879)
(Credit) charge to profit or loss for the year	(618)	(19)	(3,506)	2,763	(5,572)	(6,952)
Exchange adjustments	5	(6)	88	210	117	414
At 31 December 2021	(2,922)	(443)	3,901	(3,986)	(11,967)	(15,417)

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

19. DEFERRED TAXATION *(Continued)*

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

	2021 US$'000	2020 US$'000
Deferred tax assets	**(22,132)**	(20,383)
Deferred tax liabilities	**6,715**	11,504
	(15,417)	(8,879)

Deferred tax assets were recognised for other deductible temporary differences of approximately US$62,566,000 (2020: US$37,356,000) on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses.

At 31 December 2021, the Group has not recognised deductible temporary differences on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$101,194,000 (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 the end of the reporting period, the Group has unused tax losses of approximately US$2,060,513,000 (2020: US$2,060,635,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$13,286,000 (2020: US$23,196,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$2,047,227,000 (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. Included in unrecognised tax losses are losses of approximately US$356,292,000 (2020: US$343,426,000) which will expire by 5 consecutive years. Other losses may be carried forward indefinitely.

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

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$914,615,000 (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.

20. INVENTORIES

	2021 US$'000	2020 US$'000
Raw materials	**532,671**	380,650
Work-in-progress	**206,357**	107,231
Finished goods	**111,564**	120,816
	850,592	608,697

21. TRADE AND OTHER RECEIVABLES

	2021 US$'000	2020 US$'000
Trade receivables	**1,708,217**	2,049,158
Less: Allowance for credit losses	**(12,642)**	(7,883)
	1,695,575	2,041,275
Other taxes recoverable	**181,870**	189,480
Other receivables, deposits and prepayments	**123,942**	123,472
Total trade and other receivables	**2,001,387**	2,354,227

As at 1 January 2020, trade receivables from contracts with customers amounted to US$2,858,806,000.

The Group generally would issue the invoices to the customers when the goods are passed to the customers, except for certain orders that the Group may also collect advance payments from customers. The Group normally allows an average credit period ranged from 30 to 90 days to its trade customers, except certain customers with a good track record which may be granted a longer credit period.

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

	2021 US$'000	2020 US$'000
0–90 days	**1,574,028**	1,940,908
91–180 days	**95,205**	85,514
181–360 days	**26,158**	6,328
Over 360 days	**184**	8,525
	1,695,575	2,041,275

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Due to the COVID-19 pandemic and lockdowns in various countries, the payments from certain customers have been deferred. As at 31 December 2021, included in the Group's trade receivables balances are debtors with aggregate carrying amount of US$139,934,000 (2020: US$100,367,000) which are past due as at the reporting date. Out of the past due balances, US$26,342,000 (2020: US$9,580,000) has been past due 90 days or more and is not considered as in default based on the credit quality of the debtors. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in note 33.

22. TRADE AND OTHER PAYABLES

	2021 **US$'000**	2020 US$'000
Trade payables	**2,038,092**	1,904,474
Other tax payables	**118,587**	155,568
Accrued staff costs and employee benefits	**136,285**	168,218
Others	**439,419**	532,214
	2,732,383	2,760,474

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

	2021 **US$'000**	2020 US$'000
0–90 days	**1,950,662**	1,823,058
91–180 days	**57,682**	54,523
181–360 days	**18,334**	11,404
Over 360 days	**11,414**	15,489
	2,038,092	1,904,474

23. LEASE LIABILITIES

	2021 US$'000	2020 US$'000
Within one year	**5,033**	4,773
Within a period of more than one year but not more than two years	**15,106**	18,388
Within a period of more than two years but not more than five years	**177**	1,050
More than five years	**2,860**	–
	23,176	24,211
Less: Amount due for settlement within 12 months shown under current liabilities	**(5,033)**	(4,773)
Amount due for settlement over 12 months shown under non-current liabilities	**18,143**	19,438

24. BANK BORROWINGS

	2021 US$'000	2020 US$'000
Bank loans	**857,490**	929,068
Analysis of bank borrowings by currency:		
US$	**816,280**	927,300
RMB	**39,200**	–
INR	**2,010**	1,768

The bank borrowings as at 31 December 2021 are unsecured, obtained with original maturity of one to six months (2020: one to two months) and carry interest at fixed interest rate ranging from 0.61% to 5.90% (2020: 0.72% to 5.90%) per annum. Out of total bank borrowing, bank borrowing of US$97,010,000 (2020: US$65,168,000) contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 0.80% per annum (2020: 0.79% per annum).

25. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2020, 31 December 2020 and 31 December 2021	**20,000,000,000**	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2020	**8,211,407,906**	328,456
Repurchase and cancellation of shares	**(66,407,906)**	(2,656)
Balance at 31 December 2020	**8,145,000,000**	325,800
Repurchase and cancellation of shares	**(135,000,000)**	(5,400)
Balance at 31 December 2021	**8,010,000,000**	320,400

During the year ended 31 December 2021, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	No. of ordinary shares of US$0.04 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
January	**34,818,000**	**1.33**	**0.98**	**38,408**
June	**44,818,000**	**1.30**	**1.22**	**56,031**
July	**30,000,000**	**1.27**	**1.16**	**37,423**
December	**7,000,000**	**1.36**	**1.24**	**9,127**
	116,636,000			**140,989**
				US$'000
Equivalent to				**18,150**

109,636,000 ordinary shares were cancelled upon repurchase. Remaining 7,000,000 ordinary shares were cancelled subsequently on 14 January 2022.

25. SHARE CAPITAL *(Continued)*

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

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

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

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

26. RESERVES

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

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

27. DERIVATIVES

Currency derivatives

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

During the current year, a gain from the forward foreign exchange contracts of US$992,000 (2020: loss of US$3,144,000) was recognised in profit or loss and included in other income, gains and losses.

27. DERIVATIVES *(Continued)*

Currency derivatives *(Continued)*

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

	2021 **US$'000**	2020 US$'000
US$	**375,000**	95,000

As at 31 December 2021, the fair value of the Group's currency derivatives is estimated to be approximately US$570,000 assets (2020: US$422,000 liabilities), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates, and is included as other receivables (2020: other payables) at the end of the reporting period. The contracts outstanding as at 31 December 2021 mainly related to buying of RMB and Mexican Peso ("MXN") (2020: RMB and MXN) with maturities in the first and second quarters of 2022 (2020: first quarter of 2021).

28. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry interest at prevailing market rate of 2.49% (2020: 2.63%) per annum on average, with original maturity of over three months.

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate of 2.40% (2020: 2.41%) per annum on average.

For the year ended 31 December 2021 and 31 December 2020, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of bank deposits and bank balances are set out in note 33.

Analysis of bank deposits and bank balances and cash by currency:

	2021 **US$'000**	2020 US$'000
US$	**452,276**	345,674
RMB	**1,047,968**	1,233,183
INR	**278,890**	121,938
Brazilian Real	**6,595**	6,881
New Taiwan Dollar	**99,608**	68,726
Others	**13,709**	18,436
	1,899,046	1,794,838

29. PROVISION

	2021 US$'000	2020 US$'000
At 1 January	**9,499**	13,185
Exchange adjustments	**135**	472
Provision for the year	**6,058**	3,376
Utilisation of provision/upon expiry of the warranty period	**(9,369)**	(7,534)
At 31 December	**6,323**	9,499

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

30. DEFERRED INCOME

	2021 US$'000	2020 US$'000
Government subsidies	**9,279**	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.

31. DEEMED DISPOSAL OF SUBSIDIARIES

On 24 August 2021, the Group entered into a joint venture agreement (the "JV Agreement") with an independent third party (the "Investor"). Pursuant to the JV agreement, the Investor should contribute a cash consideration of US$40,000,000 for 50% of Mobile Drive's enlarged capital, while the Group shall contribute certain agreed assets and liabilities, including certain internally-generated intangible assets to Mobile Drive (the "Transaction"). Mobile Drive together with its subsidiaries, engaged in research and development of communication systems, handsets as well as other software, hardware and related systems. The Transaction was completed on 31 December 2021.

Under the JV Agreement, call and put options (collectively referred as the "Options") were granted to the Group and the Investor, which are exercisable upon occurrence of certain option events as defined in the JV Agreement. The Options form part of the terms of the JV Agreement and no premium will be paid by each party for the grant of the Options. In the opinion of the directors of the Company, the fair value of the Options is considered immaterial at 31 December 2021.

On completion of the Transaction, the management has determined that the Group has lost control over Mobile Drive and accordingly a gain on deemed disposal of US$34,915,000 was recognised. In addition, the fair value of the investment retained in Mobile Drive, which was classified as interest in a joint venture, is determined as US$40,000,000 with reference to the consideration paid by the Investor.

31. DEEMED DISPOSAL OF SUBSIDIARIES *(Continued)*

More details of the Transaction are set out in the Company's announcement dated on 24 August 2021 and circular dated on 4 November 2021.

The net assets of the subsidiaries at the date of deemed disposal were as follows:

	31 December 2021 US$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	2,452
Right-of-use assets	516
Inventories	2,208
Trade and other receivables	13,389
Bank balances and cash	2,066
Trade and other payables	(12,950)
Lease liabilities	(517)
Provisions	(1)
Income tax payable	(1)
Other liabilities and accruals	(3,188)
	3,974
Gain on deemed disposal of subsidiaries:	
Interest in a joint venture	40,000
Net assets disposed of	(3,974)
Reclassification of cumulative translation reserve upon deemed disposal of Mobile Drive to profit or loss	173
Transaction costs	(1,284)
Gain on deemed disposal	34,915
Net cash outflow arising on deemed disposal:	
Bank balances and cash disposed of	(2,066)

32. CAPITAL COMMITMENTS

	2021 US$'000	2020 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	14,951	67,748

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2021 US$'000	2020 US$'000
Financial assets		
Fair value through profit or loss		
Derivatives (included in other receivables)	570	–
Equity instruments	1,900	–
	2,470	–
Financial assets at amortised cost	3,689,080	3,938,626
Equity instruments at FVTOCI	225,339	205,549
Financial liabilities		
Fair value through profit or loss		
Derivatives (included in other payables)	–	422
At amortised cost		
Trade and other payables	2,461,738	2,462,709
Bank borrowings	857,490	929,068
	3,319,228	3,391,777

(b) Financial risk management objectives and policies

The Group's major financial instruments include derivatives, bank deposits, bank balances and cash, equity instruments at FVTPL/FVTOCI, trade and other receivables, trade and other payables, bank borrowings and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, other price risk and interest rate risk), credit risk and impairment assessment and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 24 for details of these bank borrowings) and lease liabilities (see note 23 for details). The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Cash flow interest rate risk in relation to variable-rate bank balances and deposits is considered insignificant as most of them are short-term in nature. Accordingly, no interest rate sensitivity analysis is presented.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL and FVTOCI. For equity securities measured at FVTOCI, the equity securities listed in Taiwan and USA, the management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain unquoted equity securities for investees engaged in the development, manufacture and sale of telecommunication devices, software and related services for long term strategic purposes which had been designated as FVTOCI. The Group has organised an investment team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign currency risk arises when the Group's recognised assets and liabilities are denominated in a currency that is not the group entity's functional currency.

The Group manages its foreign currency exposures by non-financial techniques such as managing the transaction currency, leading and lagging payments, receivable management, etc. In addition, the Group sometimes obtains bank borrowings in various foreign currencies and enters into short-term forward foreign currency contracts less than 6 months (2020: less than 3 months) for hedging purpose. The Group utilises a variety of forward foreign currency contracts to hedge its exposure to foreign currencies on a regular basis. In response to the rapid volatility in the foreign exchange market, the Group adopted a strategy of squaring RMB positions at earlier stage to reduce the currency exposure.

As at 31 December 2021, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US$375,000,000 (2020: US$95,000,000), and their fair values are estimated to be approximately US$570,000 assets (2020: US$422,000 liabilities), and are included as other receivables (2020: other payables), at the end of the reporting period. The contracts mainly related to buying of RMB and MXN (2020: RMB and MXN) with maturities in first and second quarters (2020: first quarter) of the following year.

The monetary assets and liabilities of group entities, which are denominated in a currency (i.e. RMB, INR and New Taiwan Dollar ("NTD")) other than their respective functional currency, are mainly bank balances and cash, trade and other receivables, trade and other payables and bank borrowings, the carrying amounts are summarised as follows:

	2021 **US$'000**	2020 US$'000
Assets	**1,543,829**	966,478
Liabilities	**(1,101,363)**	(723,336)

As at 31 December 2021 and 2020, majority of Group's bank borrowings were denominated in US$, bank borrowings denominated in a currency other than their respective functional currency were included in the monetary liabilities disclosed above.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Exchange rate sensitivity

At the end of the reporting period, in respect of monetary items (excluding derivatives) denominated in currency other than the functional currency of respective group entities, if exchange rates of the functional currency against US$ had been appreciated/depreciated by 3% (2020: 3%) and all other variables were held constant, the Group's post-tax profit (loss) would decrease/increase by approximately US$11,179,000 (2020: US$7,214,000) for the year and the Group's translation reserve would decrease/increase by US$96,276,000 (2020: US$100,734,000) for the year. In the current year, global currency market was tremendously volatile. Exchange rates of US$ versus other currencies fluctuated over the year which affected the fair values of the monetary items, such as forward foreign exchange contracts, trade and other receivables and bank borrowings of the Group, especially RMB and INR (2020: RMB and INR), RMB/US$ exchange rate ranged between 0.1522 and 0.1568 and INR/US$ exchange rate ranged between 0.0133 and 0.0138 (2020: RMB/US$ exchange rate ranged between 0.1402 and 0.1533 and INR/US$ exchange rate ranged between 0.0131 and 0.0141) in the current year. The effect of such fluctuation is closely monitored by the management of the Group to minimise the related effect on the overall result of the Group.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at reporting period and in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancement to cover its credit risks associated with its financial assets.

Trade receivables arising from contracts with customers

A major portion of the Group's trade receivables are receivables from industry leaders or multinational customers with good financial background. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the management considers that the Group's credit risk is significantly reduced.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 on debtors credit-impaired individually and/or based on provision matrix. Details of the quantitative disclosures are set out below in this note.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bank deposits and bank balances

The credit risk on bank deposits and bank balances is limited because the counterparties are banks with higher credit ratings and assigned by international credit-rating agencies. The Group assessed 12m ECL for bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank deposits and bank balances is considered to be insignificant and therefore no loss allowance was recognised.

Other receivables

For other receivables and deposits, the management makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2021 and 2020, the Group assessed the ECL for other receivables and deposits are insignificant and thus no loss allowance is recognised.

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
					2021	2020
					US$'000	US$'000
Financial assets at amortised cost						
Bank deposits	*28*	Ba3–Aa3	N/A	12m ECL	**14,327**	15,506
Bank balances	*28*	Ba3–A1	N/A	12m ECL	**1,884,719**	1,779,332
Other receivables	*21*	N/A	*(note a)*	12m ECL	**94,459**	102,513
Trade receivables	*21*	N/A	*(note b)*	Lifetime ECL (not credit-impaired)	**1,699,541**	2,037,073
			(note b)	(credit-impaired)	**8,676**	12,085

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes:

(a) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. Based on the historical default rate, repayment history and forecast of future condition on economy and debtors, the directors of the Company considered the expected credit loss for other receivables is immaterial.

(b) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix. The Group uses debtors' past due status to assess the impairment for its customers because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. During the year ended 31 December 2021, the Group provided net impairment allowance of US$1,672,000 (2020: net impairment allowance of US$446,000), based on the provision matrix.

Average loss rates of 0.02% to 12.80% (2020: 0.01% to 8.02%) were applied by the Group to the trade receivable with gross carrying amount of US$1,699,541,000 (2020: US$2,037,073,000) which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired).

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

Debtor that is credit-impaired, which was evident to management the debtor was in financial difficulty, with gross carrying amount of US$8,676,000 as at 31 December 2021 (2020: US$12,085,000) was assessed individually. Impairment allowance of US$8,676,000 (2020: US$5,510,000) was made on this credit-impaired debtor which was the differences between the gross carrying amount and the cash flow that the Group expects to receive.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Credit-impaired US$'000	Lifetime ECL (not credit-impaired) US$'000	Total US$'000
As at 1 January 2020	–	1,593	1,593
Impairment losses recognised	5,510	1,344	6,854
Impairment losses reversed	–	(898)	(898)
Exchange adjustments	–	334	334
As at 31 December 2020	5,510	2,373	7,883
Impairment losses recognised	3,007	2,469	5,476
Impairment losses reversed	–	(797)	(797)
Exchange adjustments	159	(79)	80
As at 31 December 2021	8,676	3,966	12,642

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are one to six months (2020: one to two months) and the maturity periods of other financial liabilities and lease liabilities are within three months to seven years. Out of the total bank borrowings, bank borrowing of US$97,010,000 (2020: US$65,168,000) contains a repayment on demand clause.

As at 31 December 2021, the Group has available unutilised banking facilities of approximately US$1,623,069,000 (2020: US$1,752,948,000). There was no pledge of assets in relation to the banking facilities as at 31 December 2021 and 2020.

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as different levels of the fair value hierarchy into which the fair value measurements are categorised (level 1 to 3) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements.

Financial assets	Fair value as at 31.12.2021 US$'000	Fair value as at 31.12.2020 US$000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Equity instrument at FVTPL	**Unlisted equity investments — 1,900**	Unlisted equity investments — nil	Level 3	Market approach	Enterprise value-to-revenue multiple and discount for lack to control ("DLOM")	The higher the enterprise value-to-revenue multiple, the higher the fair value, and vice versa The lower the DLOM, the higher the fair value, and vice versa
Forward foreign exchange contracts classified as other receivables (2020: other payables)	**Assets — 570**	Liabilities — 422	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
Equity instruments at FVTOCI	**Listed equity investments — 11,514**	Listed equity investments — 10,067	Level 1	Quoted bid prices in an active market	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments — 6,087**	Unlisted equity instruments — 3,052	Level 2	Fair value derived from market value of the shares of equity instruments in recent investment transactions	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments — 207,738**	Unlisted equity instruments —192,430	Level 3	Income approach — discounted cash flow method was used to capture the present value of the expected return	Budged sales and gross margin taken into account the relevant industry growth forecasts and financial budgets approved by the investee's management and expectation for the market development	The higher the budgeted sales and gross margin, the higher the fair value, and vice versa
					Terminal growth rate, taking into the account the management's experience and knowledge of market conditions of the specific industries	The higher the terminal growth rate, the higher the fair value, and vice versa
					Weighted average cost of capital ("WACC") ranged from 17.42% to 40.00% (2020: ranged from 19.08% to 40.00%) respectively	The lower the WACC, the higher the fair value, and vice versa

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL US$'000	Financial assets at FVTOCI US$'000	Short-term investments US$'000
At 1 January 2020	–	116,912	71,939
Net fair value gains			
— in profit or loss	–	–	2,383
— in OCI	–	36,019	–
Purchases *(note 35)*	–	38,300	355,740
Settlements	–	–	(431,016)
Transfer into level 3 *(note)*	–	860	–
Exchange adjustments	–	339	954
At 31 December 2020	–	192,430	–
Net fair value gains			
— in profit or loss	1,900	–	–
— in OCI	–	12,513	–
Purchases	–	1,000	–
Transfer into level 3 *(note)*	–	1,722	–
Exchange adjustments	–	73	–
At 31 December 2021	1,900	207,738	–

Note: For the relevant financial assets, the recent transaction prices used in prior year to determine the fair value was no longer available, therefore, the valuation method was changed and the fair value hierarchy was changed from level 2 to level 3.

For the other financial assets and financial liabilities, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

33. FINANCIAL INSTRUMENTS *(Continued)*

(d) Financial assets and financial liabilities subject to offsetting

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

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

	As at 31 December 2021		
Financial assets/liabilities subject to offsetting	Gross amounts of recognised financial assets (liabilities) US$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position US$'000	Net amounts of financial assets presented in the consolidated statement of financial position US$'000
Bank balances	534,850	(534,850)	–
Bank borrowings	(534,850)	534,850	–
Interest receivables	4,304	(3,714)	590
Interest payables	(3,714)	3,714	–

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

During the year, interest income of US$1,853,000 (2020: US$21,505,000) relating to the above arrangement was included in interest income.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payables US$'000	Bank borrowings US$'000 *(Note 24)*	Lease liabilities US$'000 *(Note 23)*	Total US$'000
At 1 January 2020	1,540	605,728	25,987	633,255
Financing cash flows	(12,196)	323,353	(22,644)	288,513
New lease entered	–	–	17,897	17,897
Interest expenses	10,918	–	1,266	12,184
Exchange adjustment	–	(13)	1,705	1,692
At 31 December 2020	**262**	**929,068**	**24,211**	**953,541**
Financing cash flows	**(7,317)**	**(73,654)**	**(11,761)**	**(92,732)**
New lease entered	**–**	**–**	**13,890**	**13,890**
Interest expenses	**7,754**	**–**	**1,123**	**8,877**
Exchange adjustment	**–**	**2,076**	**(4,287)**	**(2,211)**
At 31 December 2021	**699**	**857,490**	**23,176**	**881,365**

35. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2020, the Group acquired the certain equity instruments of HMD of US$38,300,000, which were settled through the current account of HMD.

36. RELATED PARTY TRANSACTIONS

(a) Other than as disclosed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties, including Hon Hai Technology Group.

	2021 US$'000	2020 US$'000
Hon Hai		
Sales of goods	**15**	293
Purchase of goods	**148,266**	59,746
Sales of property, plant and equipment	**–**	2,932
Purchase of property, plant and equipment	**324**	2,196
Lease expense — real properties *(note)*	**739**	659
Subcontracting income	**1,027**	2,160
Consolidated services and subcontracting expense	**13,041**	4,580
General services income	**767**	498
Subsidiaries of Hon Hai		
Sales of goods	**1,679,618**	1,388,597
Purchase of goods	**244,054**	218,126
Purchase of property, plant and equipment	**2,021**	15,495
Sales of property, plant and equipment	**15,613**	6,223
Lease income — real properties	**5,783**	4,461
Lease income — non-real properties	**12**	30
Lease expense — real properties *(note)*	**5,936**	9,014
Lease expense — non-real properties *(note)*	**5,131**	15,121
Subcontracting income	**31,340**	36,048
Consolidated services and subcontracting expense	**95,829**	180,313
General services income	**216**	27
General services expense	**22,031**	17,675
Associates of Hon Hai		
Sales of goods	**945,521**	895,831
Purchase of goods	**592,776**	530,111
Purchase of property, plant and equipment	**68**	1,138
Sales of property, plant and equipment	**28**	261
Lease income — real properties	**80**	133
Lease income — non-real properties	**–**	192
Lease expense — real properties *(note)*	**80**	85
Lease expense — non-real properties *(note)*	**6**	609
Subcontracting income	**5,815**	26,322
Consolidated services and subcontracting expense	**1,544**	2,042

Note: The amounts represent short-term lease expenses during the year.

36. RELATED PARTY TRANSACTIONS *(Continued)*

(b) At the end of the reporting period, the Group has the following balances due from/to related parties included in:

	2021 US$'000	2020 US$'000
Trade receivables:		
Hon Hai	**1,518**	1,615
Subsidiaries of Hon Hai	**700,853**	700,983
Associates of Hon Hai	**148,086**	116,577
	850,457	819,175
Other receivables:		
Hon Hai	**37**	2,987
Subsidiaries of Hon Hai	**2,990**	3,716
Associates of Hon Hai	**32**	84
	3,059	6,787
	853,516	825,962
Trade payables:		
Hon Hai	**67,765**	20,002
Subsidiaries of Hon Hai	**179,481**	138,713
Associates of Hon Hai	**117,327**	118,884
	364,573	277,599
Other payables:		
Hon Hai	**73**	29
Subsidiaries of Hon Hai	**1,727**	2,779
Associates of Hon Hai	**9**	289
	1,809	3,097
	366,382	280,696

Balances due from/to related parties are unsecured, interest-free and are repayable within one year.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2021 US$'000	2020 US$'000
Short-term benefits	**5,358**	4,791
Share-based payments	**513**	–
	5,871	4,791

36. RELATED PARTY TRANSACTIONS *(Continued)*

(d) During the year, the Group enter into the following transactions with associates (2020: associates):

	2021 US$'000	2020 US$'000
Sales of goods	**4,951**	7,240
Purchase of goods	**7,061**	5,210
Other income	**3,427**	6,476
Other expense	**–**	5

The amounts due from associates and a joint venture were US$16,097,000 (2020: amounts due to associates US$4,123,000) and US$9,208,000 (2020: nil) respectively, which were interest-free, repayable on demand and included in other receivables (2020: other payables) as at 31 December 2021.

37. RETIREMENT BENEFITS PLANS

Majority of the employees of the Company's subsidiaries are members of state-managed retirement benefit schemes operated by the government in the PRC. These subsidiaries in the PRC are required to contribute a specified percentage ranging from 5% to 20% of their payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

Certain subsidiaries of the Company operate defined benefit plans in Taiwan. Under the schemes, the employees are entitled to retirement benefits on attainment of a retirement age ranging from 55 to 60. The most recent actuarial valuations of plan assets and the present values of the defined benefit obligations were carried out at 31 December 2021 by an independent valuer, Greatfine Wealth Management Consulting Inc.. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The principal actuarial assumptions used were as follows:

	2021	2020
Discount rate	**1.00%**	0.42%
Expected rate of salary increases	**3.00%**	3.00%

The actuarial valuations showed that the market value of plan assets was US$5,982,000 (2020: US$6,063,000) and that the actuarial value of these assets represented 175% (2020: 158%) of the benefits that had accrued to members.

The Group also operates a number of defined contribution schemes in other overseas locations. Arrangements for these staff retirement benefits vary from country to country and are made in accordance with local regulations and custom.

38. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme of the Company

In order to ensure the continuity of a share option scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a share option scheme (the "Option Scheme") on 26 November 2013, which will expire on 25 November 2023, unless otherwise terminated in accordance with its terms.

Under the Option Scheme, the board of directors of the Company or its duly authorised officer(s) or delegate(s) may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The option granted will be subject to vesting period (as determined by the board of directors of the Company or its duly authorised officer(s) or delegate(s) at the time of granting the option) of up to six years or such other period which must not be more than ten years from the date of grant of the relevant option. In addition, the Company may, from time to time, grant share options to third party service providers for services provided by them to the Group.

The total number of shares which may initially be issued upon the exercise of all options to be granted under the Option Scheme and any other share option scheme(s) (collectively, the "Option Schemes") adopted by the Company must not in aggregate exceed 10% of the total number of issued shares of the Company as of the date of listing of its shares on the Stock Exchange or the adoption date (as the case may be), i.e. must not exceed 757,380,227 shares under the Option Scheme. Subject to the approval of the shareholders of the Company in general meeting, the limit may be refreshed to 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Schemes of the Company must not in aggregate exceed 30% of the number of issued shares of the Company from time to time. The maximum number of shares of the Company in respect of which options granted and to be granted to each eligible person under the Option Schemes of the Company in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to a substantial shareholder or an independent non-executive director, or their respective associates, in the 12-month period up to and including the date of such grant in aggregate over 0.10% of total number of issued shares of the Company from time to time and have an aggregate value exceeding HK$5,000,000, such further grant of options will be required to be approved by the shareholders of the Company in general meeting.

Under the Option Schemes, options granted must be taken up within 30 days after the date of offer upon payment of HK$1.00 per offer. The Option Schemes do not contain any minimum period for which an option must be held before it can be exercised, though such minimum period may be specified by the board of directors of the Company or its duly authorised officer(s) or delegate(s) under the Option Scheme at the time of grant.

The exercise price of the Option Schemes is determined by the board of directors of the Company, and shall be the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

38. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(a) Equity-settled share option scheme of the Company *(Continued)*

Currently, no options have been granted under the Option Scheme. No share option is exercisable as at 31 December 2021 and 2020.

No expense in relation to the share options granted by the Company was recognised by the Group for the years ended 31 December 2021 and 2020.

(b) Equity-settled share option scheme of Bharat FIH Limited ("BFIH")

On 28 May 2021, the Company adopted a share option scheme at the subsidiary level of the Group relating to BFIH (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited, an indirect subsidiary of the Company incorporated in India) (the "BFIH Share Option Scheme"), which will expire on 27 May 2031.

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

Under the BFIH Share Option Scheme, the board of directors of BFIH or its duly authorised committee, officer(s) or delegate(s) may grant options to its employees or third party service provider to subscribe for shares in BFIH. The option granted will be subject to vesting period (as determined by the board of directors of the Company or its duly authorised officer(s) or delegate(s) at the time of granting the option) of minimum of one year and up to six years or such other period which must not be more than ten years from the date of grant of the relevant option.

The total number of shares which may initially be issued upon the exercise of all options to be granted under the BFIH Share Option Scheme and any other scheme adopted by the Company must not in aggregate exceed 10% of the total number of issued shares of BFIH as of the date of the effective date. Subject to the approval of the shareholders of the Company in general meeting, the limit may be refreshed to 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the BFIH Share Option Schemes of BFIH must not in aggregate exceed 30% of the number of issued shares of BFIH from time to time. The maximum number of shares of BFIH in respect of which options granted and to be granted to each eligible person under the BFIH Share Option Schemes of BFIH in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of BFIH from time to time. The maximum number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to a substantial shareholder or an independent non-executive director of the Company, or their respective associates, in the 12-month period up to and including the date of such grant in aggregate over 0.10% of total number of issued shares of BFIH from time to time and have an aggregate value exceeding HK$5,000,000, such further grant of options will be required to be approved by the shareholders of the Company in general meeting.

38. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Equity-settled share option scheme of Bharat FIH Limited ("BFIH") *(Continued)*

Under the BFIH Share Option Schemes, options granted must be taken up within 30 days after the date of offer. The BFIH Share Option Scheme contain minimum period for which the options must be held before they can be exercised and the period within which the options must be exercised (the "vesting period") will be specified by the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) at the time of the offer of grant. The vesting period is from a minimum one year and up to six years (or such other period which must not be less than one year nor more than ten years from the date of grant of the relevant options) as determined by the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) at the time of grant.

A summary of movements of the number of share options under the BFIH Share Option Scheme for the year is as follows:

Date of grant	Balance at 1 January 2021	Granted during the year ended 31 December 2021	Exercised during the year ended 31 December 2021	Balance at 31 December 2021	Vesting period	Exercise price per share INR	Exercisable period
Granted to directors of the Company on 23 December 2021	–	24,000,000	–	24,000,000	1–3 years	20	23 December 2022 to 30 November 2029
Granted to employees (other than Directors of the Company) on 1 December 2021	–	59,110,000	–	59,110,000	1–3 years	20	1 December 2022 to 30 November 2029
	–	83,110,000	–	83,110,000			
Exercisable at							
1 January 2021	–						
31 December 2021	–						

The fair value of INR11 per share option was calculated using the Black-Scholes model. The inputs into the model were as follow:

	1 December 2021 and 23 December 2021
Share price at grant date	**INR20**
Exercise price	**INR20**
Expected volatility	**52.46%**
Expected life	**5.1 years**
Risk free rate	**5.68%**
Expected dividend yield	**0**

Expected volatility was determined by using reference of the historical volatility of the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

38. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Equity-settled share option scheme of Bharat FIH Limited ("BFIH") *(Continued)*

The Group recognised US$489,000 share options expenses for the year ended 31 December 2021 (2020: nil) in relation to share options granted by BFIH.

The Black-Scholes model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option values with different variables of certain subjective assumptions.

(c) Equity-settled share option scheme of Mobile Drive Technology Co., Ltd.

On 28 May 2021, the Company adopted a share option schemes at the subsidiary level of the Group relating to Mobile Drive Technology Co., Ltd. (an indirect subsidiary of the Company incorporated in Taiwan) (the "Mobile Drive Share Option Scheme"), which have been cancelled upon completion of JV Agreement.

During the current period, no options have been granted under the Mobile Drive Share Option Scheme. No share option is exercisable as at 31 December 2021.

No expense in relation to the Mobile Drive Share Option Scheme was recognised by the Group for the years ended 31 December 2021.

(d) Other share-based payment plan

In order to ensure the continuity of a share scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a share scheme (the "Share Scheme") on 26 November 2013 pursuant to which the Company may grant free shares to the directors or employees of the Company or its subsidiaries or third party service providers including employees of Hon Hai and any of its subsidiaries.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by Board) on 23 December 2021, the Company offered 7,328,361 ordinary shares to a total of 2 beneficiaries pursuant to the Share Scheme of which 7,328,361 ordinary shares were granted with lock-up periods up to 10 January 2022 from the grant date. No consideration was payable on acceptance of offer of the shares. 7,328,361 ordinary shares were purchased by the trustee of the Share Scheme from the market in January 2022. Equity-settled share-based payments of US$513,000 (2020: nil) was recognised during the year ended 31 December 2021.

39. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2021 and 2020:

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company Directly 2021	Directly 2020	Indirectly 2021	Indirectly 2020	Principal activities
Chiun Mai Communication Systems, Inc.	Limited company	Taiwan	NT$1,500,000,000	–	–	87.06%	87.06%	Design and manufacture of handsets
FIH (Hong Kong) Limited	Limited company	Hong Kong/PRC	HK$155,146,001	–	–	100%	100%	Trading of handsets
FIH Co., Ltd.	Limited company	Taiwan	NT$200,000,000	100%	100%	–	–	Provision of services to group companies
FIH Mexico Industry SA de CV	Limited company	Mexico	MXN2,007,283,685	–	–	100%	100%	Manufacture of handsets
富智康精密組件(北京)有限公司 (FIH Precision Component (BeiJing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$68,800,000	–	–	100%	100%	Manufacture of handsets
宏訊電子工業(杭州)有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$126,800,000	–	–	100%	100%	Manufacture of handsets
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$184,720,000	–	–	100%	100%	Manufacture of handsets
S&B Industry, Inc.	Corporation	USA	US$31,817,356	–	–	100%	100%	Repair services
Success World Holdings Limited	Limited company	Hong Kong	HK$1,049,044,500	100%	100%	–	–	Investment holding
FIH do Brasil Indústria e Comércio de Eletrônicos Ltda.	Limited company	Brasil	BRL550,532,590	–	–	100%	100%	Manufacture of handsets
富智康(南京)通訊有限公司 (FIH (Nan Jing) Communications Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$17,500,000	–	–	100%	100%	Research and development; sales
貴州富智康精密電子有限公司 (Guizhou FIH Precision Electronics Co., Ltd.*)	Wholly foreign owned enterprise	PRC	RMB400,000,000	–	–	100%	100%	Research and development; sales
Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited)	Public company	India	INR23,809,449,800	–	–	100%	100%	Manufacture of handsets
Rising Stars Hi-Tech Private Limited	Limited company	India	INR500,000,000	–	–	100%	–	Manufacture of electronic products

39. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2021	2020	**2021**	2020	
Bharat Taiwan Corporation 台灣躍星股份有限公司 (formerly known as Rising Stars Taiwan Corporation)	Limited company	Taiwan	NT$28,000,000	**–**	–	**100%**	–	Research and development
富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$75,000,000	**–**	–	**100%**	100%	Manufacture of handsets
富泰京精密電子(煙台)有限公司 (Futaijing Precision Electronics (Yantai) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$20,000,000	**–**	–	**100%**	100%	Manufacture of handsets
富智康精密電子(廊坊)有限公司 (FIH Precision Electronics (Lang Fang) Co., Ltd.)	Sino-foreign jointly owned enterprise	PRC	US$475,500,000	**–**	–	**100%**	100%	Manufacture of handsets
南寧富泰宏精密工業有限公司 (Nanning Futaihong Precision Industrial Co., Ltd.*)	Sino-foreign jointly owned enterprise	PRC	US$50,000,000	**–**	–	**100%**	100%	Manufacture of handsets and communication products
衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd*)	Wholly foreign owned enterprise	PRC	RMB50,000,000	**–**	–	**100%**	100%	Manufacturing, import and export
Fushan Technology (Vietnam) Limited Liability Company	Limited company	Vietnam	VND682,440,000,000	**–**	–	**100%**	100%	Manufacture of handset

* *for identification purposes only*

No debt security has been issued by any of the subsidiaries at any time during the year or is outstanding at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other insignificant subsidiaries which are mainly inactive or engaged in investment holding would, in the opinion of the directors, result in particulars of excessive length.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2021 US$'000	2020 US$'000
ASSETS		
Investments in subsidiaries	**2,239,066**	2,239,002
Other receivables	**6,020**	6,867
Amounts due from subsidiaries	**272,327**	242,495
Bank balances and cash	**1,924**	1,759
	2,519,337	2,490,123
LIABILITIES		
Bank borrowings	**540,300**	488,600
Other payables	**4,238**	437
	544,538	489,037
NET ASSETS	**1,974,799**	2,001,086
CAPITAL AND RESERVES		
Share capital	**320,400**	325,800
Share premium	**1,182,629**	1,196,955
Shares bought-back pending cancellation	**(1,170)**	(2,746)
Reserves	**472,940**	481,077
TOTAL EQUITY	**1,974,799**	2,001,086

Under the Companies Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to approximately US$1,653,886,000 (2020: US$1,675,286,000), consisted of share premium of approximately US$1,182,629,000 (2020: US$1,196,955,000) and retained profits of approximately US$472,427,000 (2020: US$481,077,000), less shares bought-back pending cancellation of approximately US$1,170,000 (2020: US$2,746,000).

Movement in reserves

	Share premium US$'000	Shares bought-back pending cancellation US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2020	1,203,080	(1,554)	–	563,955	1,765,481
Loss for the year	–	–	–	(82,878)	(82,878)
Repurchase of ordinary shares	–	(9,973)	–	–	(9,973)
Cancellation of ordinary shares	(6,125)	8,781	–	–	2,656
Balance at 31 December 2020	1,196,955	(2,746)	–	481,077	1,675,286
Loss for the year	–	–	–	(8,650)	(8,650)
Repurchase of ordinary shares	–	(18,150)	–	–	(18,150)
Cancellation of ordinary shares	(14,326)	19,726	–	–	5,400
Recognition of equity settle share-based payment *(note 38)*	–	–	513	–	513
Balance at 31 December 2021	1,182,629	(1,170)	513	472,427	1,654,399

FINANCIAL SUMMARY

	For the year ended 31 December				
	2017 (US$'million)	2018 (US$'million) *(Note)*	2019 (US$'million) *(Note)*	2020 (US$'million)	**2021 (US$'million)**
Results					
Revenue	12,080.11	14,868.13	14,378.66	8,934.75	**8,582.56**
(Loss) profit from operations	(484.33)	(647.55)	32.96	(136.80)	**79.04**
Interest expenses	(11.23)	(27.61)	(37.55)	(12.18)	**(8.88)**
(Loss) profit before tax	(495.56)	(675.16)	(4.59)	(148.98)	**70.16**
Income tax expense	(29.83)	(3.91)	(27.93)	(24.86)	**(13.74)**
(Loss) profit after tax and before non-controlling interests	(525.39)	(679.07)	(32.52)	(173.84)	**56.42**
Non-controlling interests	(0.10)	(0.01)	(0.11)	(0.10)	**(0.09)**
Net (loss) profit for the year	(525.49)	(679.08)	(32.63)	(173.94)	**56.33**

	2017 (US$'million)	2018 (US$'million)	2019 (US$'million)	2020 (US$'million)	**2021 (US$'million)**
Assets and liabilities					
Total assets	8,787.68	8,904.36	7,002.52	6,032.07	**5,979.69**
Total liabilities	(5,607.96)	(6,754.08)	(4,901.92)	(3,950.00)	**(3,812.42)**
Non-controlling interests	(6.61)	(5.94)	(6.11)	(6.64)	**(7.31)**
Capital and reserves	3,173.11	2,144.34	2,094.49	2,075.43	**2,159.96**

Note: The financial information for the year 2019 and 2018 was from continuing operations.

This corporate governance report is issued as of 15 March 2022.

The Company has adopted the corporate governance compliance manual (the "Manual") since 15 April 2010, as amended and supplemented from time to time. The purpose of the Manual is to set out the corporate governance practices from time to time adopted by the Company and the compliance procedures that apply in specific areas, with the aim to providing an overview of the requirements of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (now known as the Corporate Governance Code taking effect from 1 January 2022 onwards) (the "CG Code") and the related rules set out in the Listing Rules and the SFO respectively and also setting out certain guidelines for the implementation of corporate governance measures of the Company.

During the year ended 31 December 2021 (the "year under review"), the Company has applied and complied with all the code provisions set out in the CG Code (being the past version effective up to 31 December 2021 which shall remain applicable to the Company in respect of the year under review).

The code provision contained in Paragraph A.2.1 of the CG Code provides that the roles of 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 pandemic and on-going developments as well as component storage, particularly when the Group had made consolidated net loss on an annual basis since 2017 until 2020 and records a consolidated net profit for 2021. 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 year under review. The Board therefore considers that the circumstances justify the adoption of the arrangement for the chief executive officer to serve also as the acting chairman, and considers that this arrangement is currently in the best interests of the Company and its shareholders as a whole.

In the spirit of better corporate governance, the Board will periodically review the effectiveness of this arrangement (and introduce further measures, if necessary) and, through the Company's nomination committee, will endeavour to find a suitable candidate to assume the duties as the chairman of the Company at the right and appropriate time, thereby separating the roles of chairman and chief executive as prescribed under the code provision contained in Paragraph A.2.1 of the CG Code (now known as Paragraph C.2.1 of Part 2 of the Corporate Governance Code taking effect from 1 January 2022 onwards).

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's overall businesses, strategic decisions and performance.

According to the Manual, the respective responsibilities, accountabilities and contributions of the Board and the Company's management have been divided through the adoption of a detailed list of matters reserved specifically for the decision of the Board as more particularly described in page 173 of the Company's 2020 annual report as issued and published on 20 April 2021. Upon the Board's regular review, the aforesaid list of matters has been amended and adopted by the Board on 15 March 2022 with immediate effect, basically to highlight the Group's risks, strategy, reporting and performance relating to the ESG aspect for the Group's system of internal controls and risk management.

Subject to the foregoing as well as the delegation mechanism and delegation of authority forming part of the internal control measures as mentioned above, the Board has delegated its powers to the Company's management for the daily management and operations of the Group. In addition, the Board has delegated its powers to the Board committees. The Board has four Board committees, namely the audit committee, the remuneration committee, the nomination committee and the corporate governance committee, each of which discharges its functions and duties in accordance with the respective terms of reference with reference to the relevant provisions under the CG Code.

The Board currently consists of three executive directors and three independent non-executive directors.

Executive Directors

CHIH Yu Yang *(acting chairman, chief executive officer and chairman of the corporate governance committee)*
KUO Wen-Yi *(member of the corporate governance committee)*
MENG Hsiao-Yi *(chief operating officer)*

Independent Non-executive Directors

LAU Siu Ki *(chairman of the audit committee, remuneration committee and nomination committee respectively)*
Daniel Joseph MEHAN *(member of the audit committee, remuneration committee and nomination committee respectively)*
TAO Yun Chih *(member of the audit committee, remuneration committee and nomination committee respectively)*

The respective biographical details (including, without limitation, gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge) of each director are set out in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2021 annual report incorporating this report).

In accordance with the Articles, any director, appointed either to fill a casual vacancy or as an addition to the then existing Board, shall hold office only until the next general meeting and shall then be eligible for re-election at such general meeting.

In accordance with the Articles, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every director shall be subject to retirement by rotation at an annual general meeting at least once every three years. The directors to retire in the relevant year will be those who have been longest in office since their last re-election.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. The balanced Board composition (comprising three independent non-executive directors out of a total of six Board members) also ensures that strong independence exists across the Board. The biographical details of the directors as at the date of this report as set out in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2021 annual report incorporating this report) demonstrate a diversity of skills, expertise, experience, qualifications and other perspectives appropriate to the requirements of the Company's business.

The Board meets regularly and Board meetings are held at least four times a year to discuss principally the overall strategies as well as the operational and financial performance of the Group, and (in relation to the first and third regular Board meetings) to review and approve the Company's final results and interim results, respectively. At least fourteen days' notice (in relation to each regular Board meeting) or a reasonable notice (in relation to any other ad-hoc Board meeting) is given to all directors and they can include matters for discussion in the agenda. An agenda and accompanying Board papers are sent to all directors at least three days before the intended date of a Board meeting. Every Board member is entitled to have access to Board papers and related materials and access to the advice and services of the company secretary. They can also seek independent professional advice in appropriate circumstances, at the Company's expense. If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical Board meeting (for details about the policies and procedures governing directors' potential/actual conflicts of interests, please refer to page 172 of the Company's 2020 annual report as issued and published on 20

April 2021). The minutes books are kept by the company secretary. Draft and final versions of minutes of the Board meetings were sent to all directors for their comments and records respectively within a reasonable time after the meetings. During the year under review, ten Board meetings were held. The meeting attendance of each Board member is set out in the section headed "Board, Committees and General Meetings" below. In addition to the Board meetings, the Board dealt with matters by way of circulation and signing of seven sets of written resolutions during the year under review.

CHAIRMAN

The chairman is responsible for providing leadership to the Board and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at the Board meetings. He should take the primary responsibility for ensuring that good corporate governance practices and procedures are established and appropriate steps are taken to provide effective shareholders' communication with the Board. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the non-executive directors. On 23 December 2021, Mr. Chih (the Company's acting chairman) held a meeting with the independent non-executive directors without the presence of the other executive directors.

NON-EXECUTIVE DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors, namely Mr. LAU Siu Ki ("Mr. Lau"), Dr. Daniel Joseph MEHAN ("Dr. Mehan") and Mr. TAO Yun Chih ("Mr. Tao"), setting out the terms and conditions governing his appointment and ancillary matters, as amended and supplemented from time to time.

With reference to the requirement under the Articles regarding directors' retirement from office by rotation at each annual general meeting of the Company as mentioned above, it follows that pursuant to the resolution passed by the Company's shareholders at an annual general meeting of the Company in relation to the re-election of any one director of the Company, the current term of such director's appointment with the Company will commence from the closing of such annual general meeting, ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) such director's next re-election is considered in accordance with the Articles.

Pursuant to the approval of the Board on 27 March 2020 and the approval of the Company's shareholders on 22 May 2020, Mr. Tao, an independent non-executive director of the Company, was re-elected in his capacity for a term commencing from 22 May 2020 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles.

Pursuant to the approval of the Board on 26 March 2021 and the approval of the Company's shareholders on 28 May 2021, Mr. Lau and Dr. Mehan, the independent non-executive directors of the Company, were re-elected in their respective capacities for a term commencing from 28 May 2021 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) their next re-elections are considered in accordance with the Articles.

During the year under review, the non-executive directors (for the time being, being all the independent non-executive directors) provided the Company with the benefit of a wide range of their skills, expertise and varied backgrounds and qualifications and brought independent judgement on issues of strategic direction, policy, development and performance through their contributions at Board meetings and (as appropriate) committee meetings.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year under review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received written annual confirmation of independence from the three independent non-executive directors, Mr. Lau, Dr. Mehan and Mr. Tao, in accordance with Rule 3.13 of the Listing Rules.

Mr. Lau and Dr. Mehan have served the Board for more than nine years, and subject to retirement and re-election under the Articles as mentioned above, the current appointment term of each of Mr. Lau and Dr. Mehan with the Company as an independent non-executive director will be ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles, which meeting is tentatively scheduled to be held in or about May 2024. The Board has therefore kept Mr. Lau's and Dr. Mehan's positions under careful review. Mr. Lau has over 40 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing, whereas Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development (for further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2021 annual report incorporating this report). On the basis of their respective professional background, skills and experience as well as their diversity of perspectives appropriate to the requirements of the Company's business, Mr. Lau and Dr. Mehan have accumulated in-depth understanding of the Group's business operations and affairs, and have been contributing objectively and giving independent guidance, views and comments to the Company over the past years. For the year under review, Mr. Lau and Dr. Mehan have provided their respective written annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. They have also confirmed no relationship with any directors, senior management members, or substantial or controlling shareholders of the Company. Each of Mr. Lau and Dr. Mehan has not held any executive or management role or position within the Group, and has not been involved in the daily operations and management of the Group during the years that he has been a director, and has clearly demonstrated to the Company his willingness to exercise independent judgement and to provide objective views to the Company.

In this respect, the nomination committee of the Company re-assessed the independence of all the independent non-executive directors in respect of the year under review, and was satisfied (among other things) that each of Mr. Lau, Dr. Mehan and Mr. Tao was and would be independent in accordance with Rule 3.13 of the Listing Rules. On the basis of the recommendation from the nomination committee and up to the date of this report, the Board (after taking into account the above factors) is not aware of the occurrence of any event which would cause it to believe that the independence of any of the independent non-executive directors has been impaired. In relation to Mr. Lau and Dr. Mehan who have served the Board for more than nine years, the Board is not aware of any evidence that the length of tenure of Mr. Lau and Dr. Mehan has had any adverse impact on their independence, nor any circumstance that might influence Mr. Lau and Dr. Mehan in effectively exercising their judgement independently, in either case in their capacity as independent non-executive directors despite their familiarity with the Group's affairs and management. Accordingly, the Board has concluded that Mr. Lau and Dr. Mehan have remained and would continue to remain independent in the context of the Listing Rules. In addition, during the year under review, Mr. Lau and Dr. Mehan spent over 25 hours in 2021 and almost 20 hours in 2021 respectively in training which evidences their efforts to keep abreast of new changes for their continuous professional development with fresh perspectives. Moreover, after a comprehensive review of all the skill sets, experience and qualifications of Mr. Lau and Dr. Mehan respectively, the Board and the nomination committee have believed that Mr. Lau and Dr. Mehan possess the required character, competence, integrity and experience to continue fulfilling their role as the independent non-executive directors of the Company, and their continued tenure will continue to bring valuable insights, advices, expertise and fresh perspectives to the Board.

As disclosed in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2021 annual report incorporating this report, as at the date of this report, Mr. Lau holds the position of independent non-executive director in six other companies which shares are listed on the Stock Exchange. The Board and the nomination committee have considered that Mr. Lau has, throughout the period during which he has been acting as an independent non-executive director of the Company, demonstrated that he has been, and will continue to be, able to devote sufficient time to the Board after having taken into account a variety of considerations, including without limitation the following: (i) given all the above-mentioned directorships are of an independent non-executive nature and do not require Mr. Lau to devote his full time and attention to the day-to-day operation and management of those companies; (ii) Mr. Lau is a competent professional and good at time management who has sound knowledge and skills to efficiently handle seventh or more companies' directorships, and since his appointment as a director of the Company in December 2004, Mr. Lau has demonstrated outstanding time management, planning and organisation skills with the help of sufficient staff support despite overlapping of financial year-end and peak seasons for listed companies, and also, during the year under review, he spent over 25 hours in 2021 in training to effectively facilitate the performance of his appointments; (iii) Mr. Lau has a proven track record of ability and commitment to manage and allocate sufficient time for matters relating to the Group from time to time handled by the Board and/or the Board committees chaired by Mr. Lau (the "Group Matters"), as evidenced by his full attendance at a total of ten meetings of the Board (out of ten in the year under review), four meetings of the audit committee (out of four in the year under review), one meeting of the nomination committee (out of one in the year under review), two meetings of the remuneration committee (out of two in the year under review), one meeting with the Company's acting chairman and other independent non-executive directors (out of one in the year under review) and one meeting of the Company's shareholders (out of one in the year under review); and (iv) at the request of the Company, Mr. Lau provides an annual confirmation that he has devoted sufficient time and attention to the Group Matters for the year under review and will continue to do so, and in particular, Mr. Lau has disclosed to the Company: (a) the number and nature of offices held by him in public companies, organisations and other significant commitments as more particularly described in his biographical details; (b) the identity of the said companies and organisations; and (c) an indication of time involved in each of such offices, and Mr. Lau will also notify the Company of any change of such information in a timely manner. Further, the Board is of the view that Mr. Lau's directorship experiences in other companies listed on the Stock Exchange would enable him to discharge his duties as an independent non-executive director of the Company more effectively as these experiences are beneficial in equipping him with accumulative knowledge, familiarity and experience on matters such as the latest developments and trends in directors' duties, Listing Rules requirements, regulatory focus and common risks and limitations in management and compliance. The Board will continue to maintain regular communications with Mr. Lau and re-assess Mr. Lau's ability to devote sufficient time to the Group Matters and discussions and deliberations at the Board level on an on-going basis.

The Company's independent non-executive directors comprise individuals of a diverse range of ethnicity as well as cultural, educational and technical backgrounds, coming from Hong Kong, Taiwan and the U.S. and holding academic qualifications from these jurisdictions. They are also equipped with a diverse range of skills, knowledge and experience in different industry and professional fields ranging from corporate governance, corporate finance, financial advisory and management, accounting and auditing, information systems, cyber security, marketing and business development, Internet and mobile application developments and consultancy to start-up growth and management. In addition, their ages diversely range from 47 to 77. For further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2021 annual report incorporating this report.

COMPANY SECRETARY

Ms. Vanessa WONG Kin Yan has been the company secretary of the Company since June 2017. She has over 24 years of extensive working experience in company secretarial and corporate governance matters. Ms. Wong is a full-time employee of the Company and has been supporting the Board (among other things) for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and timely preparation and dissemination to directors comprehensive Board meeting agendas and papers. During the year under review, Ms. Wong undertook over 15 hours of relevant professional training to update her skills and knowledge.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Prior to appointment, every intending director of the Company is provided with a briefing and training provided by the Company's professional legal advisers to ensure that he/she is fully aware of the duties, roles, responsibilities and obligations as a director of a Hong Kong-listed company under the Listing Rules and other applicable legal and regulatory requirements. Such briefing and training are provided at the Company's expense. The intending director also receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has an appropriate understanding of the Group's operations and businesses, including without limitation applicable legal, regulatory and related compliance requirements; corporate structure; Board and Board committee meeting procedures; shareholders communications; internal control and enterprise risk management systems and related processes; corporate governance practices; and securities dealing.

The Company from time to time provides briefings, training sessions and materials to the directors to develop and refresh their knowledge and skills, including updates on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements to enhance their awareness and understanding of the same.

During the year under review, all directors had participated in appropriate continuous professional development activities through different means as appropriate, including but not limited to attending briefings and/or training sessions and/or reading materials relating to a variety of subject matters such as the Group's business operations, general economy and geopolitics, manufacturing or technology or handset industry and dynamics, directors' duties and responsibilities, and applicable legal and regulatory requirements.

The company secretary of the Company is responsible for keeping the records of training taken by the directors. According to the records kept by the Company, the directors attended the following continuous professional development activities during the year under review:

Name of director	Type(s) of continuous professional development activities
CHIH Yu Yang	A, B
KUO Wen-Yi	A, B
MENG Hsiao-Yi	A, B
LAU Siu Ki	A, B
Daniel Joseph MEHAN	A, B
TAO Yun Chih	A, B

A: Attending briefing(s) and/or training session(s)
B: Reading articles, journals, newspapers and/or other materials

AUDIT COMMITTEE

The Company has established and maintained an audit committee with written terms of reference by reference to the code provisions of the CG Code. The terms of reference of the audit committee are accessible on the websites of the Stock Exchange and the Company respectively.

The audit committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the audit committee)*
Daniel Joseph MEHAN
TAO Yun Chih

The principal duties of the audit committee are to review the Group's financial reporting and accounting policies and practices as well as financial controls, internal control and enterprise risk management systems and provide advice and comments to the Board. It also makes recommendations on the appointment, re-appointment and removal of external auditor, and approves the remuneration and terms of engagement of the external auditor. It also reviews and monitors the external auditor's independence and objectivity as well as the effectiveness of the audit process. Please see the section headed "Accountability and Audit" below for more details.

In particular, the Company has complied with Rule 3.21 of the Listing Rules, which requires that at least one of the members of the audit committee (which must comprise a minimum of three members with non-executive directors only and must be chaired by an independent non-executive director) is an independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The audit committee shall meet at least twice a year. Also, at least once a year the audit committee shall meet with the external auditor without any members of management of the Company present. During the year under review, the audit committee held two meetings with the external auditor and also another meeting with the external auditor without the presence of any members of management of the Company. Moreover, four audit committee meetings were held during the year under review and the meeting attendance of each member of the audit committee is set out in the section headed "Board, Committees and General Meetings" below. In particular, the committee meetings served (among other things) to review the unaudited interim financial statements and report and the audited full-year financial statements and report together with the related management representation letters, to review and approve the external auditor's engagement letters, to review and approve the internal audit plan of the Group, to review the Group's system of enterprise risk management and internal controls, to review the Group's relevant continuing connected transactions, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the audit committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the audit committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

REMUNERATION COMMITTEE

The Company has established and maintained a remuneration committee with written terms of reference by reference to the code provisions of the CG Code. The terms of reference of the remuneration committee are accessible on the websites of the Stock Exchange and the Company respectively.

The remuneration committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the remuneration committee)*
Daniel Joseph MEHAN
TAO Yun Chih

The principal duties of the remuneration committee are to make recommendations to the Board on the policy and structure for the remuneration of the directors and senior management, to consider and review the remuneration of the directors and senior management by reference to corporate goals and objectives, and to make recommendations to the Board on the remuneration packages of the directors and senior management.

The remuneration committee shall meet at least once a year (as necessary). During the year under review, two remuneration committee meetings were held and the meeting attendance of each member of the remuneration committee is set out in the section headed "Board, Committees and General Meetings" below. In particular, the committee meetings served (among other things) to review the proposed 2021 share grants under the Existing Share Scheme, two new share option schemes of the Company's two subsidiaries (namely Mobile Drive Technology Co., Ltd. and Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited) ("BFIH") respectively), the annual expenses allowances to executive directors, the annual remuneration packages of directors and senior management (including that of a new senior management) and the renewal of the terms of letters of appointment of three executive directors, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the remuneration committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the remuneration committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

Details of the remuneration paid/payable to the directors of the Company during the year under review are set out in note 8 to the consolidated financial statements and "Report of the Directors" above, respectively, both forming part of the Company's 2021 annual report incorporating this report.

NOMINATION COMMITTEE

The Company has established and maintained a nomination committee with written terms of reference together with the nomination policy for directorship, formerly known as the nomination procedures and process and criteria to select and recommend candidates for directorship (the "Nomination Policy") as well as the board diversity policy (the "Board Diversity Policy"), both policies forming part of the Manual, by reference to the code provisions of the CG Code. The terms of reference of the nomination committee are accessible on the websites of the Stock Exchange and the Company respectively.

The nomination committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the nomination committee)*
Daniel Joseph MEHAN
TAO Yun Chih

The principal duties of the nomination committee include:

- reviewing the structure, size and composition of the Board annually and make recommendations on any proposed changes;

- making recommendations to the Board on the appointment or re-appointment of the directors and succession planning for the directors, in particular the chairman of the Board and the chief executive officer of the Company;

- assessing the independence of the independent non-executive directors;

- identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships in accordance with the Nomination Policy and the Board Diversity Policy; and

- together with the corporate governance committee, reviewing each of the Nomination Policy and the Board Diversity Policy (as appropriate) to ensure its effectiveness, relevance to the Company's needs and alignment with the then current regulatory requirements and good corporate governance practice, and discussing any proposed changes to the then existing Policy for recommendation to the Board for consideration.

Nomination Policy

On 22 March 2012, the Company adopted the Nomination Policy, as amended and supplemented from time to time. The Nomination Policy aims at setting out (among other things) the process for the nomination of directorship candidates by a director or shareholder of the Company, the information collection and candidate selection process of the nomination committee, criteria which the nomination committee would consider and details on the nomination procedures for appointment and re-appointment of director(s) of the Company, in order to facilitate the constitution of the Board with a balance of skills, knowledge, ability, experience and diversity of perspectives that is appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The Nomination Policy supplements the terms of reference of the nomination committee.

The Nomination Policy has been amended and adopted by the Board on 15 March 2022 and the new version will become effective upon approval and adoption by the Company's shareholders of the second amended and restated articles of association of the Company (the "New Articles") at the forthcoming annual general meeting. Please note that the existing version of the Nomination Policy is summarised in pages 183 and 184 of the Company's 2020 annual report as issued and published on 20 April 2021.

Further to the requirements under the Articles applicable to the nomination of directorship candidates by a director or shareholder of the Company, the nomination committee shall take into account a variety of considerations in assessing and evaluating whether a candidate is suitably qualified to be appointed as a director of the Company before making recommendations to the Board. The main considerations are summarised as follows:

- the candidate's qualifications, skills, knowledge, ability and experience, with reference to the corresponding professional knowledge and industry experience that may be relevant to the Company and also the potential contributions that such candidate could bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

- the candidate's potential time commitment and attention to perform director's duties under common law, legislation and applicable rules and regulations (including without limitation the Listing Rules);

- the candidate's personal ethics, integrity and reputation (including without limitation to conduct appropriate background checks and other verification processes against such candidate), which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business;

- the then current structure, size and composition of the Board and the Company's corporate strategy with reference to the Board Diversity Policy, with due regard for the benefits of the appropriate diversity of perspectives within the Board;

- Board succession planning considerations and the long-term needs of the Company; and

- any other factors and matters as the nomination committee may consider appropriate.

In case of a candidate for an independent non-executive director of the Company, the nomination committee will also assess:

- the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and

- the requirements relating to independent non-executive directors set out in Code Provision A.5.5 of the CG Code (now known as Paragraph B.3.4 of Part 2 of the CG Code taking effect from 1 January 2022 onwards), and for such purposes, the nomination committee may refer to the practical advice and suggestions provided in the Guidance for Boards and Directors and the Corporate Governance Guide for Boards and Directors (each as amended and supplemented from time to time) published by the Stock Exchange in respect of independent non-executive directors.

As to the re-appointment of a director of the Company, the nomination committee will *mutatis mutandis* apply the above process and criteria, and if applicable, assess whether such director has remained independent in the context of the Listing Rules and should be re-elected at the next general meeting of the Company. Please see below for details.

The nomination committee will follow the nomination procedures set out in the Nomination Policy to select and recommend candidates for the Company's directorship to ensure that the candidates possess the expertise and experiences to perform his/her duties and fulfil the relevant requirements as a director of the Company. Such nomination procedures are summarised as follows:

- Upon receipt of a nomination from the nominating director or the company secretary of the Company, the chairman of the nomination committee will convene a meeting of the nomination committee to consider the same in accordance with the terms of reference of the nomination committee. For filling a casual vacancy on the Board, the nomination committee will conduct the relevant selection process and apply the relevant selection criteria, and make recommendations to the Board for consideration. The Board will then make a decision as to whether the nominated candidate shall be eligible to be appointed as a director of the Company.

- A similar process is applied in the re-appointment of director(s) of the Company, except that if the director proposed to be re-appointed or re-elected due to retirement by rotation under the Articles is an independent non-executive director of the Company who has served the Board for more than nine years, the nomination committee shall assess whether the director has remained independent in the context of the Listing Rules and should be re-elected at the next general meeting of the Company and make recommendations to the Board for consideration. If the Board determines that the relevant director has remained independent in the context of the Listing Rules, the Board shall recommend the proposed re-appointment/re-election of the director to the Company's shareholders for consideration at the next general meeting of the Company. According to Code Provision A.4.3 of the CG Code (now known as Paragraph B.2.3 of Part 2 of the CG Code taking effect from 1 January 2022 onwards), the Company's circular relating to the proposed re-appointment of such director shall state why each of the nomination committee and the Board believes that the director is still independent and should be re-elected, including the factors considered, the process and the discussion of the nomination committee/the Board (as the case may be) in arriving at such determination.

- For proposing a candidate to stand for election as the Company's director at a general meeting of the Company, the nomination committee will make nominations to the Board for consideration, and the Board will then make recommendations to the Company's shareholders for consideration. In accordance with Rule 13.70 of the Listing Rules, the Company shall publish an announcement or issue a supplementary circular setting out the information required by the Listing Rules (including without limitation the relevant particulars of the candidate) upon receipt of the written notice from the Company's shareholder(s) where such notice is received by the Company after publication of the notice of meeting; the Company must give its shareholder(s) at least seven days to consider the relevant information disclosed in such an announcement or supplementary circular prior to the date of the meeting of the election. In this respect, the Company will assess whether to adjourn the general meeting to give the Company's shareholders a longer period of at least ten business days to consider the relevant information disclosed in the announcement or supplementary circular. For details about the procedures for the Company's shareholders to propose candidates for election as a director of the Company, please see such procedures (as amended and supplemented from time to time) accessible on the website of the Company.

Board Diversity Policy and Diversified Board Composition

On 12 August 2013, the Company adopted the Board Diversity Policy, as amended and supplemented from time to time. The Company recognises the benefits from its Board constituted from time to time having a balance of skills, knowledge, ability, experience and diversity of perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The Company regards the achievement and maintenance of the appropriate diversity of perspectives within the Board as a critical factor in supporting its competitive strengths and achieving its strategic goals and sustainable development in the long run. The Board Diversity Policy aims at setting out the framework that the Company has put in place to implement the above objectives. The Board Diversity Policy supplements the terms of reference of the nomination committee.

In accordance with the Board Diversity Policy, when reviewing the Board's structure and composition and/or Board member appointment or re-appointment, the nomination committee shall take into account a number of factors (with reference to the diversity of perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates) as measurable objectives (which factors include without limitation gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge as well as length of service). The nomination committee will continue to monitor and review the progress towards achieving the said measurable objectives by considering candidates on merits as well as against the said measurable objectives with due regard for the benefits of the appropriate diversity of perspectives within the Board and the candidates' potential contributions thereto. The Company has always recognised gender diversity as one important aspect of diversity, and the Board had previously comprised of female directors (Ms. GOU Hsiao Ling from December 2004 to January 2012, and Ms. LEE Kuo Yu from May 2013 to May 2016). The directorship candidate nomination and selection process (coupled with criteria) of the nomination committee is without gender bias, being based principally on merits and assessment of candidates against the said measurable objectives (comprising gender as only one of the factors) with due regard for the benefits of the appropriate diversity of perspectives within the Board and also the candidates' potential contributions thereto. It follows that the nomination committee's selection and (if thought fit) nomination of female directorship candidates would mainly depend on the then available pool of female directorship candidates possessing the requisite professional, cultural and educational background as well as professional skills, experience and knowledge that are commensurate with the needs of the Company, etc. when being assessed on merits as well as against the said measurable objectives. Despite the recent limited availability of female directorship candidates possessing the requisite industry experience in the business fields in which the Company is principally engaged, the Company will continue to give due regard to the different aspects of diversity (including gender diversity) when considering potential candidates for directorship in accordance with the Board Diversity Policy. In particular, the nomination committee will use its best effort to identify and recommend female candidates to the Board for its consideration for appointment as director(s) with an ultimate aim to achieve the Board's target to appoint at least one female member to the Board by 25 March 2024.

As at the end of the year under review, the Board comprised six directors, including three executive directors, namely Mr. CHIH Yu Yang, Dr. KUO Wen-Yi and Mr. MENG Hsiao-Yi; and three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih. Details of the directors are set out in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2021 annual report incorporating this report.

The Board was diversified in terms of age, ethnicity, length of service, professions, background, etc. Among the six directors, three of them held master's or doctoral degrees, and their cultural, educational and technical backgrounds span across Taiwan, Hong Kong and the U.S., with experiences in communication industries and engineering, product research and development, factory operation management, resources integration and optimisation, corporate governance, corporate finance, financial advisory and management, accounting and auditing, information systems, cyber security, marketing and business development, Internet, mobile application and technology developments and consultancy to start-up growth and management. The diversified composition of the Board, coupled with alignment with the Company's strategy and objectives, bring a broad vision to the Board in making decisions on the Group's material issues, which has effectively enhanced the decision-making competencies, strategic management and overall performance of the Board.

2021 Work Highlights

The nomination committee shall meet at least once a year (as necessary). During the year under review, one nomination committee meeting was held and the meeting attendance of each member of the nomination committee is set out in the section headed "Board, Committees and General Meetings" below. In particular, the committee meetings served (among other things) to consider the re-election of three directors, to assess the independence of the independent non-executive directors, to review the structure, size and composition of the Board, to assess the sufficiency of the directors' time commitment and contributions to the Company as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the nomination committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the nomination committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

During the year under review: (a) each of Mr. MENG Hsiao-Yi as an executive director ("Mr. Meng") and Mr. LAU Siu Ki and Dr. Daniel Joseph MEHAN as independent non-executive directors was re-elected by the Company's shareholders on 28 May 2021, whose re-appointment term has commenced from 28 May 2021, ending upon the conclusion of the relevant general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles. In this respect, the work performed by the nomination committee is summarised as follows:

- When considering the proposed re-appointment of Mr. Meng as an executive director of the Company, the nomination committee focused on Mr. Meng's extensive and in-depth skills, knowledge, ability and experience in both the Group and the industry as accumulated by Mr. Meng in performing his key roles and functions with both the Group and the other members of the Hon Hai Technology Group for over 30 years, his time commitment, attention and contributions to the Company, his diversity of perspectives appropriate to the requirements of the Company's business as well as his personal ethics, integrity and reputation which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business. Following the relevant meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Mr. Meng for re-appointment as an executive director of the Company.

- When considering the proposed re-appointment of Mr. Lau as an independent non-executive director of the Company, the nomination committee focused on Mr. Lau's professional background, qualifications, skills, knowledge, ability and experience, the extensive and in-depth knowledge and experience of Mr. Lau in both the Company and the industry as accumulated by Mr. Lau as the Company's independent non-executive director, his time commitment, attention and contributions to the Company, his diversity of perspectives appropriate to the requirements of the Company's business as well as his personal ethics, integrity and reputation which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business. In addition, the nomination committee re-assessed the independence of all the Company's independent non-executive directors (including Mr. Lau) in respect of the year under review, and was satisfied (among other things) that Mr. Lau was and would be independent in accordance with Rule 3.13 of the Listing Rules. For details of the other factors taken into account by the nomination committee in assessing Mr. Lau as an independent, long-serving and over-boarding director of the Company, please refer to the section headed "Independent Non-executive Directors" above. Following the relevant meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Mr. Lau for re-appointment as an independent non-executive director of the Company.

- When considering the proposed re-appointment of Dr. Mehan as an independent non-executive director of the Company, the nomination committee focused on Dr. Mehan's professional background, qualifications, skills, knowledge, ability and experience, the extensive and in-depth knowledge and experience of Dr. Mehan in both the Company and the industry as accumulated by Dr. Mehan as the Company's independent non-executive director, his time commitment, attention and contributions to the Company, his diversity of perspectives appropriate to the requirements of the Company's business as well as his personal ethics, integrity and reputation which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business. In addition, the nomination committee re-assessed the independence of all the Company's independent non-executive directors (including Dr. Mehan) in respect of the year under review, and was satisfied (among other things) that Dr. Mehan was and would be independent in accordance with Rule 3.13 of the Listing Rules. For details of the other factors taken into account by the nomination committee in assessing Dr. Mehan as an independent and long-serving director of the Company, please refer to the section headed "Independent Non-executive Directors" above. Following the relevant meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Dr. Mehan for re-appointment as an independent non-executive director of the Company.

During the year under review and in accordance with the Board Diversity Policy, in the process of assessing candidates for the re-appointment of directors of the Company, the nomination committee considered (among other things) the said measurable objectives. In this respect, the work performed by the nomination committee is summarised as follows:

- In making a recommendation to the Board proposing Mr. Meng for re-appointment as an executive director of the Company, the nomination committee had taken into account (among other things) Mr. Meng's Taiwan background as well as extensive and in-depth skills, knowledge, ability and experience in both the Group and the industry as accumulated by Mr. Meng in performing his key roles and functions with both the Group and the other members of the Hon Hai Technology Group for over 30 years, together with his business achievements and contributions, especially those in the aspect of factory operations.

- In making a recommendation to the Board proposing Mr. Lau for re-appointment as an independent non-executive director of the Company, the nomination committee had taken into account (among other things) Mr. Lau's over 40 years of Hong Kong background, professional qualifications, skills, knowledge, ability and experience (especially those in the aspects of corporate governance, corporate finance, financial advisory and management, accounting and auditing) as well as his wide-ranging knowledge and experiences in other Hong Kong-listed companies which may collectively continue to bring valuable insights, advices, expertise and fresh perspectives to the Board for better enhancement.

- In making a recommendation to the Board proposing Dr. Mehan for re-appointment as an independent non-executive director of the Company, the nomination committee had taken into account (among other things) Dr. Mehan's U.S. background, professional qualifications, skills, knowledge, ability and experience (especially those in the aspects of information systems, cyber security, business management, marketing initiatives and technology development) which may collectively continue to bring valuable insights, advices, expertise and fresh perspectives to the Board for better enhancement.

CORPORATE GOVERNANCE COMMITTEE

The Company has established and maintained a corporate governance committee with written terms of reference by reference to the code provisions of the CG Code.

The corporate governance committee now consists of two executive directors. The members are:

CHIH Yu Yang *(chairman of the corporate governance committee)*
KUO Wen-Yi

The principal duties of the corporate governance committee are to develop and review the Company's policies and practices on corporate governance and to make recommendations to the Board. It also reviews and monitors the training and continuous professional development of the directors and senior management. In addition, it reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements. Moreover, it develops, reviews and monitors the code of conduct and compliance manual applicable to employees and the directors, and to review the Company's compliance with the CG Code.

The corporate governance committee shall meet at least once a year (as necessary). During the year under review, one corporate governance committee meeting was held and the meeting attendance of each member of the corporate governance committee is set out in the section headed "Board, Committees and General Meetings" below. In addition to the committee meeting, the corporate governance committee also dealt with matters once by way of circulation and signing of written resolutions during the year under review. In particular, the committee meeting served (among other things) to review the revised list of matters reserved for the Board, to review the existing shareholders communication policy and the existing delegation of authority of the Board, to review the total time spent in training and continuous professional development of directors and senior management of the Company and to review the revised definition of "Core Team" in the Manual as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the corporate governance committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the corporate governance committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

INDEPENDENT BOARD COMMITTEE

During the year under review, pursuant to the written resolutions of the Board dated 15 October 2021, an independent Board committee comprising the three independent non-executive directors of the Company (with Mr. LAU Siu Ki as its chairman) was established to consider (among other things) the possible major transaction in relation to the possible spin-off and separate listing of BFIH on BSE Limited and National Stock Exchange of India Limited as more particularly described in "Report of the Directors" above (forming part of the Company's 2021 annual report incorporating this report) and approved the relevant matters relating thereto once by way of circulation and signing of written resolutions.

BOARD, COMMITTEES AND GENERAL MEETINGS

The individual attendance records of each director (represented in the following manner: number of meeting(s) attended by each director/total number of the corresponding meeting(s) held during such director's appointment term) at the meetings of the Board, audit committee, remuneration committee, nomination committee, corporate governance committee and general meeting of the Company during the year under review are set out below:

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	Annual General Meeting (Note)
Executive Directors						
CHIH Yu Yang	10/10	N/A	N/A	N/A	1/1	1/1
KUO Wen-Yi	10/10	N/A	N/A	N/A	1/1	1/1
MENG Hsiao-Yi	10/10	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors						
LAU Siu Ki	10/10	4/4	2/2	1/1	N/A	1/1
Daniel Joseph MEHAN	10/10	4/4	2/2	1/1	N/A	1/1
TAO Yun Chih	10/10	4/4	2/2	1/1	N/A	1/1

Note: The directors participated in the annual general meeting held on 28 May 2021 ("2021 AGM") by means of telephone conference facility, except that Mr. LAU Siu Ki attended the 2021 AGM in person.

AUDITOR'S REMUNERATION

The responsibility of the auditor is to form an independent opinion, based on its audit, on those consolidated financial statements and to report its opinion solely to the Company, as a body, and for no other purpose.

During the year under review, the auditor's remuneration incurred by the Company was US$1,009,000, and US$1,603,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services. In addition, a total fee of US$225,000 for non-audit services was incurred by the Company's auditor during the year under review, comprising approximately US$154,000 and US$71,000 for services relating to the Company's major transactions and other tax and advisory services, respectively.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Group and ensuring that the consolidated financial statements are in accordance with applicable statutory requirements and accounting standards.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the preparation of the Group's consolidated financial statements and the Company's financial statements for each financial period, which give a true and fair view of the financial position and operating results of the Group or the Company (as the case may be) for such financial period. In preparing the financial statements for the year under review, the directors have selected and adopted suitable accounting policies and have applied them in a consistent manner, have made reasonable judgements and estimates, and have prepared the financial statements on a going-concern basis.

The Board has overall responsibility for the Group's system of internal controls and enterprise risk management ("ERM") and reviewing its effectiveness and (as to the ESG aspect) the Group's ESG-related strategy and reporting, and in particular, evaluating and determining the nature and extent of the risks (including ESG-related risks) it is willing to take in achieving the Group's business and strategic objectives (including, as to the ESG aspect, implementing the Group's ESG-related strategy and reporting), ensuring that an adequate and effective system of internal controls and ERM is in place within the Group.

In particular, the Board oversees the Group's management in the context of the Group's ERM and internal controls (comprising the Company's chairman/acting chairman, chief executive officer, chief financial officer and chief operating officer, and the Group's business heads of its major factories in the PRC, India, Vietnam and the U.S., who collectively as a body is designated for the purpose of assisting the Board with the Group's overall policies on ERM and internal controls (the "Management")) in (among other things) the design, implementation and monitoring of the internal control and ERM system on an on-going basis, so that (among other things) the business and strategic objectives of the Group (including, as to the ESG aspect, implementing the Group's ESG-related strategy and reporting) can be achieved and risks (including ESG-related risks) associated can be identified, evaluated, managed and mitigated (but not eliminated) at an acceptable level, and reasonable (but not absolute) assurance can be provided against material misstatement or loss and also assurance can be provided on the effectiveness and adequacy of operations, reliability of financial reporting and operational information, safeguarding of the Group's assets and compliance with the Group's policies, plans and procedures as well as applicable laws and regulations.

The Board (through its audit committee comprising, for the time being, all the independent non-executive directors) oversees and evaluates the Group's internal control and ERM system on an on-going basis. In particular, the audit committee, in discharging the aforesaid responsibility as delegated by the Board, semi-annually reviews the design and operational adequacy and continuing effectiveness of the Group's internal control and ERM system. In respect of the year under review, semi-annual review of the Group's internal control and ERM system was conducted in August 2021 and March 2022 by the audit committee, and the audit committee confirmed in both occasions that the Group's internal control and ERM system continued to be effective and adequate throughout the year under review. For details, please refer to the penultimate paragraph below of this "Accountability and Audit" section. Moreover, the audit committee, in discharging the Board's responsibility of overseeing and evaluating the effectiveness and adequacy of the Group's system of internal controls and ERM as delegated by the Board, reviews the Group's internal audit function. Pursuant to a risk-based approach, the Group's internal audit function independently reviews the risks (including ESG-related risks) associated with and internal controls of the Group over various operations and activities, and evaluates their overall adequacy, effectiveness and compliance, including compliance with the Group's policies, plans and procedures. The Group's internal audit function (as designated by the Board) has unrestricted access to all information, books, people and physical properties, thereby allowing it to review all aspects of the internal controls, ERM and governance processes within the Group. This includes audit of financial and operational controls of all legal entities, business and functional units as well as all other material controls (including financial, operational and compliance controls). The audit committee reviews and approves the internal audit plan which is prepared by the Group's internal audit function in the first quarter of every year based on a risk assessment of each operating and functional unit as well as its materiality in the context of the Group. Audit findings, enhancements and recommendations are communicated to the management of the responsible unit after each internal audit. The management of the responsible unit is responsible for evaluating such audit findings, enhancements and recommendations and then implementing the appropriate ones and rectifying the deficiencies with corrective actions, and the progress on such implementation and rectification is followed up by the Group's internal audit function on a regular basis and monitored by the Management in order that corrective actions can be taken by the management of the responsible unit in a timely manner. Escalation to the senior management or even the executive directors for material deficiencies will be made by the Group's internal audit function, when necessary. A summary of major activities and findings is reported semi-annually by the Group's internal audit function to the executive directors and the audit committee. Being a learning organisation, lessons learned and best practices are disseminated and promoted within the Group.

During its semi-annual review, the audit committee also considers, in particular: (a) the adequacy of resources, qualifications and experiences of the Group's staff performing accounting, internal audit and financial reporting functions and their training programs and budget; (b) the changes, since the last review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment; (c) the scope and quality of the Management's on-going monitoring of risks (including ESG-related risks) and of the internal control and ERM system, and the work of the Group's internal audit function; (d) the extent and frequency of communication of monitoring results to the audit committee which enables it to assess control of the Group and the effectiveness of risk management; (e) significant control failings or weaknesses that have been identified during the period under review and also the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and (f) the effectiveness of the Group's processes for financial reporting and compliance with the Listing Rules.

The code of conduct and the code of ethics administering appropriate and prohibited individual behaviour within the Group are implemented and apply to employees by way of policies, rules and principles. Besides, the Group has established its whistle-blowing policies and the related procedures which apply to all members of staff and suppliers. Complaints concerning fraudulent acts, unethical acts or improper business conduct can be raised through established hotlines and other channels. Whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice. All complaints will be handled confidentially, timely, fairly and professionally by the Group's chief internal auditor for further investigation and appropriate follow-up actions.

Risk management is one of the fundamental parts of the Group's strategic management, and is an on-going process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives (including, as to the ESG aspect, implementation of the Group's ESG-related strategy and reporting), and safeguarding the interests of shareholders and other key stakeholders such as customers, creditors and employees. Existing and emerging risks are identified, evaluated and managed via the ERM system. The system is operated and monitored by the Group's ERM team (the "ERM Team") which consists of the Company's heads/leaders of human resources, supply chain services, manufacturing and corporate engineering, product safety, security and liability, quality and reliability, finance, legal, information technology, investment management, strategic planning, sales and collection management, environment and health and safety departments/divisions, collectively as a body representing key functions of the Group for monitoring and execution of the ERM processes (e.g. to establish ERM strategies and objectives, and to maintain risk assessment standards and categories) in accordance with the enterprise risk assessment and management planning operation procedures, which set out (among other things) the enterprise risk assessment and management principles and procedures, the quantifiable assessment standards and evaluations, the respective roles and responsibilities of the ERM Team and the supporting divisions and handling officers at the headquarters and business unit levels as well as the ERM system operation details. Risk assessment results generated and contributed by the underlying business unit controllers/risk owners will be collected, reviewed, assessed and consolidated twice a year by the Company's risk management division led by the Group's chief internal auditor. Risk assessment reports (as prepared on the basis of such risk assessment results and covering, among other things, review of progress on ESG-related goals and targets) will be submitted on a regular basis to the ERM Team for review to ensure the adequacy of action plans and appropriate business processes or control systems to manage these risks (in particular, the areas which were assessed as high risk, including ESG-related risks, if any). The Company's risk management division will consolidate all the risk assessment results in a Group-level risk assessment report and then submit the same to the Company's chief financial officer on an annual basis. Such Group-level risk assessment report provides for (among other things) the ERM framework and model, the annual ERM analyses (with the relevant risk scores, highlighting the major risk areas and corresponding enhancements, if any), and the planned ERM work for next year. In this respect, the Company's chief financial officer will represent the Management and report the operational adequacy and continuing effectiveness of the internal control and ERM system (including the relevant ERM matters) to the audit committee on an annual basis.

The principal risks that are covered by the ERM system are strategic planning, technical, budgetary control, performance measurement, and control over capital expenditure, investment, finance, quality, product safety, security and liability, legal, regional (including politics, culture, etc.), information technology, supply chain management (including sourcing), environmental protection, natural disasters, human resources management, customer credit risk and relationship, industrial safety as well as sales and collection management.

The Group also adopts internal control procedures to ensure that the continuing connected transactions of the Group have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms (or better) and according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole. The accounting department of the Company is primarily responsible for reviewing and monitoring the continuing connected transactions, ensuring that the annual caps of the relevant continuing connected transactions are not exceeded and the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The accounting department of the Company will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and semi-annually report to the chief financial officer of the Company, who in his own capacity and on behalf of the Management will report to the audit committee (for the time being, comprising all the independent non-executive directors) and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the Listing Rules have been entered into: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are properly implemented and operated and are adequate and effective to ensure that such transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements. The audit committee will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the Listing Rules) semi-annually to check and confirm whether such continuing connected transactions are conducted: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, and whether the internal control procedures put in place by the Company are properly implemented and operated and are adequate and effective to ensure that such continuing connected transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements. For details, please refer to the "Internal Control Measures" section of the Company's circular on continuing connected transactions dated 28 August 2020. In particular, in order to assist the independent non-executive directors (for the time being, being all the members of the audit committee) in performing their corresponding duties and functions under the Listing Rules and also having an oversight over the on-going monitoring in respect of the Group's continuing connected transactions, the Company's chief financial officer and the Group's chief internal auditor jointly issue, on a semi-annual basis, a report to the independent non-executive directors (copied to the corporate governance committee) on the internal controls applicable to such continuing connected transactions, setting out (among other things) the review and findings relating to the assessment of the appropriateness and effectiveness of the relevant internal control procedures, and the recommended enhancements on the relevant internal control procedures (if any). In this respect, sufficient information regarding such continuing connected transactions and related pricing policies and internal control procedures has been provided to the independent non-executive directors, who (during the review process for the period under review) have confirmed that they have not encountered any problems nor difficulties and have been given ample opportunities to pose questions, request additional information and/or make suggestions in respect of any such continuing connected transactions and related pricing policies and internal control procedures.

The Company's chief financial officer in his own capacity and on behalf of the Management, after reviewing and discussing with the Group's internal audit function the Group's internal control and ERM system as well as the related reports and disclosures made by the Group's internal audit function and other relevant stakeholders for the year under review, has provided a confirmation to the audit committee on the adequacy and effectiveness of the system.

Based on the results of evaluations and representations for the year under review made by the Company's chief financial officer in his own capacity and on behalf of the Management and the Group's internal audit function respectively, the audit committee is satisfied with the effectiveness of the Group's internal audit function and that there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives, and an effective and adequate system of internal controls and ERM has been in place throughout the year under review, for safeguarding the interests of shareholders and other key stakeholders such as customers, creditors and employees.

The procedures for the handling and dissemination of inside information and handling enquiries from authorities (forming part of the Manual) set out the detailed internal controls, reporting and authorisation procedures in connection with:

(a) the handling and dissemination of inside information in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO, where recipients of potential inside information (subject to applicable confidentiality obligations and dealing restrictions) will notify the leader of a core team designated by the Board for assessment and (as appropriate) reporting to the chairman/acting chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess any disclosure need in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO in respect of the potential inside information.

(b) the handling of enquiries from competent authorities (including the Stock Exchange and the Hong Kong Securities and Futures Commission), who may make enquiries with the Company on (among other things) unusual movements in the price or trading volume of the Company's shares under Rule 13.10 of the Listing Rules or media news or compliance with the Listing Rules, the SFO or other applicable laws and regulations, and such enquiries will be handled through the designated core team and (as appropriate) the chairman/acting chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess proper disclosure.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code, and has formulated and adopted the Authorisation Procedures of the Model Code and the Securities Dealing Policy since 2005 (each as amended and supplemented from time to time). 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, and the requirements laid down by the aforesaid Authorisation Procedures and Securities Dealing Policy, in respect of the Company's securities throughout the year under review.

SHAREHOLDER RELATIONS

The Company has formulated and maintained the shareholders communication policy (forming part of the Manual) setting out the framework that the Company has put in place to maintain and promote effective communication and on-going dialogue with its shareholders so as to enable them to engage actively with the Company through different means of communication and exercise their rights in the capacity as shareholders in an informed manner. To this end, the Company strives to ensure that all its shareholders have ready and timely access to all publicly available information relating to the Company.

Upon the Board's regular review, the shareholders communication policy has been amended and adopted by the Board on 15 March 2022 with immediate effect, basically to update the Company's website referred to therein.

The shareholders communication policy provides for (among other things) the procedures by which enquiries may be put forward to the Company as follows:

- The Company's shareholders may at any time send enquiries (including enquiries to the Board) and requests for publicly available information and provide comments and suggestions to the Company. Such enquiries, requests, comments and suggestions can be sent through "Contact Us" at the Company's website (https://www.fihmobile.com) or to the company secretary at the following address:

  The Company Secretary of FIH Mobile Limited
  c/o Shenzhen Futaihong Precision Industrial Co., Ltd.
  No. 2, 2nd Donghuan Road
  Longhua Street, Baoan
  Shenzhen City
  Guangdong Province
  518109
  People's Republic of China

- For enquiries about their shareholdings in the Company, the shareholders can direct the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or by email to hkinfo@computershare.com.hk, who has been appointed by the Company to handle the shareholders' share registration and related matters.

- For the verification of his/her capacity as a shareholder, the shareholder making the enquiry, request, comment or suggestion shall forthwith upon the Company's request provide: (a) his/her name, address and other contact details; (b) the number of the Company's shares held by him/her; (c) his/her written consent to the use, transfer and/or processing of his/her personal data and other information provided to the Company for the purpose of verifying his/her capacity as a shareholder; and (d) such additional information as the Company may reasonably require for the purposes of such verification. The verification process will be conducted by the Company, in consultation with the Company's Hong Kong branch share registrar and other third parties if necessary, to the satisfaction of the Company. The Company will proceed to handle the relevant enquiry, request, comment or suggestion following a successful verification to its satisfaction.

- Following a successful verification of the shareholder's capacity, the company secretary or the handling officer of the Company's investor relations department (as the case may be) will review the relevant enquiry, request, comment or suggestion and (as appropriate) forward the same: (a) to the Board (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within the Board's purview; (b) to the members of the relevant Board committee (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within such Board committee's area of responsibility; and (c) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

The shareholders communication policy also provides (among other things) that the annual general meetings and other general meetings of the Company are the primary forum for communication with the shareholders and for the shareholders' exchange of views and participation in discussions with the Board.

During the year under review, the 2021 AGM was held on 28 May 2021. The meeting attendance of each director is set out in the section headed "Board, Committees and General Meetings" above.

At the 2021 AGM, the Company obtained its shareholders' approval of the agenda items set forth in the 2021 AGM notice attached to the Company's circular dated 21 April 2021.

SHAREHOLDERS' RIGHTS

Shareholders' Right to convene Extraordinary General Meeting and Add Resolutions to Meeting Agenda

The Company has formulated and maintained the memorandum on shareholder rights (forming part of the Manual) which has been amended and adopted by the Board on 15 March 2022 and the new version will become effective upon approval and adoption by the Company's shareholders of the New Articles at the forthcoming annual general meeting. The memorandum on shareholder rights sets out (among other things) its shareholders' right to convene the Company's extraordinary general meeting ("EGM") and right to add resolutions to the meeting agenda of the EGM as follows:

- Pursuant to Article 68 of the New Articles, the relevant shareholder(s) of the Company is/are entitled to convene an EGM upon written requisition in the following manner for transaction of any business or resolution specified on such written requisition:

  (a) Upon the written requisition of any one or more shareholders deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company. Such requisitionist(s) shall also be able to add resolutions to the meeting agenda of the EGM convened upon his/their written requisition, provided that such additional resolutions shall be deposited at the principal place of business of the Company in Hong Kong not less than 15 business days before the EGM; or

  (b) Upon the written requisition of any one shareholder who is a recognised clearing house (as defined in the New Articles) or its nominee(s) deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company. Such requisitionist shall also be able to add resolutions to the meeting agenda of the EGM convened upon its written requisition, provided that such additional resolutions shall be deposited at the principal place of business of the Company in Hong Kong not less than 15 business days before the EGM.

- If the Board does not within twenty-one days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further twenty-one days, the requisitionist(s) himself/herself/themselves (or any of them representing more than one-half of the total voting rights of all of them) may convene the EGM in the same manner, as nearly as possible, as that in which EGMs may be convened by the Board, provided that any EGM so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to him/her/them by the Company.

Please note that the existing version of the memorandum on shareholder rights is summarised in pages 195 and 196 of the Company's 2020 annual report as issued and published on 20 April 2021.

Procedures for Shareholders' Enquiries

The Company has formulated and maintained the shareholders communication policy (forming part of the Manual) setting out (among other things) the procedures by which enquiries may be put to the Board as more particularly described in the section headed "Shareholder Relations" above.

Shareholders' Right to put forward Proposals at General Meetings

The Company has formulated and maintained the procedures for shareholders to propose candidates for election as a director of the Company (forming part of the Manual), which is accessible on the website of the Company. The procedures for shareholders to propose candidate for election as a director of the Company have been amended and adopted by the Board on 15 March 2022 and the new version will become effective upon approval and adoption by the Company's shareholders of the New Articles at the forthcoming annual general meeting and will be posted on and accessible on the website of the Company after the close of such annual general meeting. In relation to other proposals which may be put forward at the Company's general meetings, the Company has formulated and maintained the memorandum on shareholder rights (forming part of the Manual) which has been amended and adopted by the Board on 15 March 2022 and the new version will become effective upon approval and adoption by the Company's shareholders of the New Articles at the forthcoming annual general meeting. The memorandum on shareholder rights provides for (among other things) the following:

- In the absence of any general mechanism for the shareholders to put forward other proposals at the Company's general meetings (including, for the avoidance of doubt, to add resolutions to the meeting agenda of any such general meetings) under the Cayman Islands Companies Act in force for the time being, the shareholder(s) can submit a written requisition (in hard copy form or in electronic form) to move a proper resolution at a general meeting of the Company if such shareholder(s) individually or collectively represent(s) as at the date of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

- The written requisition shall: (a) state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or other business to be dealt with at the relevant general meeting; (b) be authenticated by way of the signature(s) of all the requisitionist(s), which may be contained in one document or in several documents in like form; and (c) be deposited at the principal place of business of the Company in Hong Kong not less than 15 business days before the relevant general meeting.

  The current address of the Company's principal place of business in Hong Kong is as follows:

  8th Floor, Peninsula Tower
  538 Castle Peak Road
  Cheung Sha Wan
  Kowloon
  Hong Kong
  Attention: The Company Secretary

Please note that the existing version of the memorandum on shareholder rights is summarised in pages 195 and 196 of the Company's 2020 annual report as issued and published on 20 April 2021.

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