

Retail Business

1. Short-term plan

- (1) E-commerce: Provide differentiated and value-added services by leveraging big data analysis to optimize product portfolios and recommend more personalized products to customers; deepen cooperation between momo and leading brands; and integrate offline and online loyalty programs.
- (2) TV home shopping: Enhance distribution channel's competitiveness by listing more branded products from overseas, cultivating fan bases on social platforms, such as Facebook and LINE, and cooperating with e-commerce suppliers to expand product offerings.

2. Medium to long-term plan

- (1) E-commerce: Increase market share to further dominate B2C market by implementing a multi-channel sales strategy, optimizing search functions, facilitating short-chain logistics efficiency, and improving user experience (UX) and user interface (UI).
- (2) Take a pro-active approach in raising momo's brand image, further explore Asia's TV shopping market, export best-selling products across multiple countries, leverage the group's marketing resources and sales channels to enhance operating efficiency, and provide innovative services through mobile and cloud platforms.

Market and Sales Overview

Market analysis

Consumer Business Group

1. Main products and service areas

The Company provides mobile services nationwide, covering Taiwan and the outlying islands of Kinmen and Matsu.

2. Market status

As of October 2020, the mobile subscription penetration rate had reached 125%. Although the market is mature, 5G's commercialization offers exciting opportunities as demand for IoT, broadband, smart devices and value-added services surges.

3. Competitive advantages

(1) Diversification strategy

The Company integrates telecom, cable and e-commerce to provide diversified telecom bundle plans and increase user stickiness through cross-selling.

(2) Innovative 5G services

The Company provides customers integrated entertainment digital services, such as myVideo, MyMusic and myBook. Moreover, TWM works with partners in the ecosystem to launch new services, such as smart stadium, smart home and cloud gaming, in the 5G market.

4. Opportunities and challenges

Positive factors

- (1) Lower-priced 5G devices will be readily available in the market.
- (2) High-quality video/audio content and innovative value-added applications will drive up demand for high-speed broadband.
- (3) An aging society and development of smart homes will create business opportunities.

Negative factors

- (1) Users' calling behavior had changed, and telecoms' voice revenue is under pressure.
- (2) 4G unlimited data plans have become the mainstream. There is limited growth in mobile service revenue, while the cost of 5G network buildout is high.

Countermeasures

- (1) 5G technologies will expand innovative services and applications, create user demand and increase new business opportunities.
- (2) The Company will continue to integrate resources, utilize big data analysis to predict target users, and pursue revenue growth through its Super 5G strategy.
- (3) TWM will form more partnerships with top global ICT vendors to develop exclusive smart care solutions. The Company rolled out the first NB-IoT based wearable devices in Taiwan, and aims to expand such care services in the future.

Enterprise Business Group

1. Main products and service areas

EBG provides international services in 247 countries. As of the end of 2020, its roaming services covered the following: 3G: 185 countries, 353 networks; 4G: 112 countries, 195 networks; 5G: 11 countries, 14 networks.

2. Market status

In the post-pandemic era, the demand for more stable and secure network communication services would increase, spurring the development of 5G, cloud, information security and AIoT. In particular, IoT devices used in manufacturing, the medical industry, finance and retail have the greatest growth potential. With the trend toward digital transformation, telecom companies are abandoning traditional telecom services in favor of providing complete solutions for enterprises. In terms of traditional services, voice revenue has continued to decline, internet services are still popular, but revenue growth has slowed, while data communication service revenue has increased in recent years.

3. Competitive advantages

- (1) Premium brand equity and customer relationship: TWM provides customer-centric quality services. It has cultivated long-term and deep relationships with enterprise users, possesses a wealth of experience in assisting different types of customers, introduced diversified services, and won recognition among major enterprises.
- (2) Professional management team and efficient support group: TWM has an experienced direct sales and logistics team, and has obtained multiple information security certifications. Its cloud IDC computer room is also a data center that has won Uptime Tier III certifications for design, construction and operational sustainability.
- (3) 5G ecosystem vertical integration: TWM will continue to expand partners in the 5G ecosystem and leverage competitive advantages to assist customers in creating diversified solutions.

4. Opportunities and challenges

Positive factors

- (1) 5G applications offer unlimited possibilities and business opportunities.
- (2) In the post-pandemic era, companies have turned to remote work and stepped up digital transformation. As this has also opened the door to hackers to steal confidential information or launch phishing or ransomware attacks, the demand for cloud and information security products is forecast to surge.
- (3) TrendForce predicts that in 2021, IoT would be deeply integrated with AI. Related applications would be specifically presented in two vertical applications – smart manufacturing and smart healthcare. TWM has been investing in related fields to seize market opportunities.

Negative factors

- (1) The popularity of mobile data has seen local and long-distance calls replaced by free communication software.
- (2) Chunghwa Telecom has fixed network services and a scale advantage.

Countermeasures

TWM will continue to develop various corporate communication integration services, deepen cooperation with existing partners, actively develop interdisciplinary alliance opportunities, strengthen vertical integration capabilities, and create more comprehensive 5G, IoT, cloud, information security, AI and other business solutions to help customers cover all bases and bolster client stickiness.

Home Business Group

1. Main products and service areas

TWM Broadband's main service areas are New Taipei City's Sinjhuang and Sijhih districts, Yilan County and Kaohsiung's Fongshan District among others.

2. Market status

- (1) Cable TV

Taiwan's CATV penetration rate has reached nearly 60% of households, according to NCC data. Watching TV is a major leisure activity in Taiwan – one that is relatively unaffected by fluctuations in the economy. However, intensifying competition from new cable multiple-system operators (MSO), Chunghwa Telecom's MOD system and the emergence of diverse OTT content providers has affected market pricing.

- (2) HD digital TV and broadband internet access

Thanks to rich HD content, stable and quality signals, expanding platforms for viewing TV programs, and rapid development of online video services and social media, the demand for HD digital TV and high-speed broadband Internet access has continued to increase.

3. Competitive advantages

- (1) TWM offers high-speed broadband network and WiFi 6 transmission which, coupled with its rich digital content and value-added services, should drive digital TV revenue growth.

- (2) The Company can leverage off the group's rich and varied resources to offer innovative digital convergence products and services.

4. Opportunities and challenges

Positive factors

- (1) High-speed broadband internet service has become the mainstream.
- (2) Demand for multi-screen viewing of video content has increased, demonstrating the growing importance of digital convergence for families.
- (3) With a solid base in smart home applications, TWM leads the industry in launching comprehensive services, such as A1 Box and HomeSecurity service for communities.

Negative factors

- (1) At its 840th meeting on Jan. 23, 2019, the NCC approved proposed changes to Chunghwa Telecom's operation of its multimedia content transmission platform, allowing the company to form its own channel packages, as well as add or remove channels, for its MOD system. The changes place cable TV operators at a disadvantage as they must still obtain the NCC's approval to switch channels, while their pricing schemes have to be reviewed by city/county governments on an annual basis. This unequitable competition could have an impact on the cable TV industry's future.
- (2) With the NCC allowing cable system operators (SO) to expand their service areas, new entrants might resort to cutthroat pricing to grab market share, increasing the risk of subscriber losses for TWM.
- (3) The TV industry is facing operational difficulties due to the rise of OTT platforms and unauthorized set-top boxes.

Countermeasures

- (1) TWM Broadband is observing developments in Taiwan's digital content industry and global industry trends, focusing on providing a richer assortment of digital channels and connected TV content.
- (2) After launching A1 Box, an open platform integrating cable TV channels and diverse OTT content, to meet market demand, TWM Broadband launched 1Gbps high-speed broadband service with WiFi 6, and HomeSecurity AI service for businesses, offering a complete range of surveillance and security services.

Retail Business

1. Main products and service areas

momo mainly provides e-commerce and TV home shopping services in Taiwan, mainland China and Thailand.

2. Market status

TV home shopping growth is limited due to declining viewership. On the other hand, B2C e-commerce topline growth is accelerating, bolstered by share gains from offline and continued expansion in mobile and streaming platforms.

3. Competitive advantages

- (1) Scale benefit: momo is the largest B2C e-commerce in Taiwan and continues to expand its leading position. Its bargaining power has increased, and more and more first-tier brands are doing direct business with momo, broadening its offerings of high-quality products.
- (2) Solid reputation: momo has built a solid reputation among suppliers and customers in the TV home shopping industry. Besides winning customers' confidence, it has enhanced suppliers' willingness to entrust their brands to the Company, boosting its product diversity.
- (3) Strong support from the group: momo is able to leverage the resources of affiliates to create opportunities in digital convergence, mobile platforms, mobile payment mechanisms and warehouse management system.

4. Opportunities and challenges

Positive factors

- (1) Mobile usage time and mobile shopping continue to increase.
- (2) E-commerce should continue to benefit from the development of 5G wireless broadband networks.

Negative factors

- (1) High product homogeneity and intensifying market competition have led to margin pressure.
- (2) Risk management of product quality and food safety are increasingly important as momo's scale continues to increase.

Countermeasures

- (1) momo has an extensive system of suppliers and a professional product development team. This facilitated its expansion into mobile and streaming platforms, as it already has a trove of best-selling products to tap into, which not only prolonged their product life cycle, but also increased sales volumes and differentiated it from the competition.
- (2) momo has an online shopping mobile app to tap into the mobile commerce market and optimize customer experience. By promoting limited time and live-stream promotions, momo is able to reach more consumers and stimulate buying willingness. The mobile platform also offers convenience, encouraging consumers to increase their shopping frequency.
- (3) momo has set up a quality control team to visit new suppliers' factories, outsource product testing to reduce food safety risks, filter out controversial products and clarify supplier responsibility to provide consumers with a safe place to shop.

Main features and production process of major products:

The Company provides wireless/fixed-line telecom services, digital TV subscription, cable broadband, e-commerce/TV home shopping, and integrated information/communication services.

Supply of raw materials: Not applicable as the Company is not a manufacturer.

Major suppliers and customers in the past two years

- A supplier/customer that accounts for at least 10% of consolidated procurement/revenue

1. Major suppliers

Unit: NT\$'000

		2019			2020			
	Company	Procurement amount	% of consolidated procurement	Nature of relationship	Company	Procurement amount	% of consolidated procurement	Nature of relationship
1	Company A	11,149,249	15	Third party	Company A	8,555,514	10	Third party
	Others	63,711,059	85		Others	76,771,168	90	
	Total	74,860,308	100		Total	85,326,682	100	

2. Major customers: Not applicable as the Company's revenue from a single customer did not exceed 10% of its total operating revenue.

3. Reasons for variation

Procurements from suppliers varied as the Company purchased handsets from different vendors to meet its business development needs and market demand.

Production volume in the past two years: Not applicable as the Company is not a manufacturer.

Sales volume in the past two years

Services		2019		2020	
		Sales volume	Revenue (NT\$'000)	Sales volume	Revenue (NT\$'000)
Mobile	Mobile services ('000 subs at year-end)	7,178	43,133,841	7,264	39,946,961
Domestic fixed telephony	Local calls ('000 minutes) ¹	240,493	447,730	243,016	446,242
	Long distance calls ('000 minutes) ¹	84,381	65,883	85,360	60,932
International fixed telephony	International calls ('000 minutes) ¹	82,466	1,065,964	44,784	665,186
Fixed-line data transmission ('000 lines)		209	2,485,298	198	2,564,409
Sales revenue ²		NA	68,983,292	NA	81,100,093
Others		NA	8,238,905	NA	8,077,161
Total			124,420,913		132,860,984

1: Outgoing minutes only.

2: Including retail sales of handsets, accessories, IT products and 3C home appliances.