

FIH[®] 富智康[®]

FIH Mobile Limited
富智康集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

INTERIM REPORT

2023



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CORPORATE INFORMATION

as of 9 August 2023

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

LIN Chia-Yi (also known as Charles LIN)

NON-EXECUTIVE DIRECTOR

CHANG Chuan-Wang

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki

CHEN Shu Chuan (also known as Nadia CHEN)

CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis)

COMPANY SECRETARY

WONG Kin Yan, Vanessa

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Hibiscus Way
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Cheung Sha Wan
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Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

LEGAL ADVISORS

Dentons Hong Kong LLP
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

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Grand Cayman, KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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183 Queen’s Road East
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STOCK CODE

2038

WEBSITE

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF FIH MOBILE LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of FIH Mobile Limited (the “Company”) and its subsidiaries set out on pages 4 to 35, which comprise the condensed consolidated statement of financial position as of 30 June 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

9 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	NOTES	Six months ended	
		30.6.2023 US\$'000 (unaudited)	30.6.2022 US\$'000 (unaudited)
Revenue	3	2,676,717	4,125,264
Cost of sales		(2,637,096)	(4,043,585)
Gross profit		39,621	81,679
Impairment loss under expected credit loss model, net of reversal		(50,744)	(14,462)
Other income, gains and losses		132,730	63,501
Selling expenses		(5,683)	(3,380)
General and administrative expenses		(90,181)	(92,350)
Research and development expenses		(26,459)	(37,446)
Interest expenses		(23,551)	(7,251)
Share of loss of associates		(3,245)	(4,107)
Share of loss of a joint venture		(2,089)	(5,152)
Loss before tax		(29,601)	(18,968)
Income tax expense	4	(20,234)	(4,855)
Loss for the period	5	(49,835)	(23,823)
Other comprehensive (expense) income:			
<i>Item that will not be reclassified to profit or loss:</i>			
— Fair value loss on investments in equity instruments at fair value through other comprehensive income		(78,922)	(61,846)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(73,482)	(130,358)
Share of translation reserve of associates		(692)	(1,913)
Share of translation reserve of a joint venture		48	(2,684)
Other comprehensive expense for the period		(153,048)	(196,801)
Total comprehensive expense for the period		(202,883)	(220,624)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended	
	NOTE	30.6.2023 US\$'000 (unaudited)	30.6.2022 US\$'000 (unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		(50,016)	(23,780)
Non-controlling interests		181	(43)
		(49,835)	(23,823)
Total comprehensive (expense) income attributable to:			
Owners of the Company		(203,322)	(220,129)
Non-controlling interests		439	(495)
		(202,883)	(220,624)
Loss per share	7		
Basic		(US0.6 cent)	(US0.3 cent)
Diluted		(US0.6 cent)	(US0.3 cent)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	NOTES	30.6.2023 US\$'000 (unaudited)	31.12.2022 US\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	657,793	728,302
Right-of-use assets	8	40,268	40,198
Investment properties	8	442	10,189
Equity instruments at fair value through other comprehensive income		64,446	143,610
Interests in associates		22,014	25,951
Interest in a joint venture		31,144	33,185
Deferred tax assets	9	17,493	14,557
Deposit for acquisition of right-of-use assets		26,375	27,366
Other receivables	8	42,051	–
		902,026	1,023,358
Current assets			
Inventories		958,167	731,898
Trade and other receivables	10	1,518,805	1,905,645
Bank deposits		46,905	24,280
Cash and cash equivalents		1,241,398	1,825,109
		3,765,275	4,486,932
Assets classified as held for sale	11	1,942	–
		3,767,217	4,486,932
Current liabilities			
Trade and other payables	12	2,043,359	2,704,356
Contract liabilities		246,723	273,157
Lease liabilities		1,474	1,498
Bank borrowings	13	710,860	676,054
Provision	14	2,513	2,779
Tax payable		69,151	50,588
		3,074,080	3,708,432
Net current assets		693,137	778,500
Total assets less current liabilities		1,595,163	1,801,858

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 30 JUNE 2023

	NOTES	30.6.2023 US\$'000 (unaudited)	31.12.2022 US\$'000 (audited)
Capital and reserves			
Share capital	15	316,680	317,550
Reserves		1,260,484	1,464,103
Equity attributable to owners of the Company		1,577,164	1,781,653
Non-controlling interests		3,120	6,123
Total equity		1,580,284	1,787,776
Non-current liabilities			
Deferred tax liabilities	9	3,938	3,752
Deferred income	16	7,282	8,067
Lease liabilities		3,659	2,263
		14,879	14,082
		1,595,163	1,801,858

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Attributable to owners of the Company													
	Share capital	Share premium	Share bought-back		Special reserve	Revaluation reserve	Other reserve	Legal reserve	Translation reserve	Share compensation reserve	Retained profits	Total	Non-controlling interests	Total
			pending cancellation											
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	US\$'000	US\$'000
Balance at 1 January 2022 (audited)	320,400	1,182,829	(1,170)	15,514	12,801	(405)	176,419	139,976	513	313,483	2,159,960	7,309	2,167,269	
Loss for the period	-	-	-	-	-	-	-	-	-	(23,780)	(23,780)	(43)	(23,823)	
Other comprehensive expense for the period	-	-	-	-	(61,846)	-	-	(134,503)	-	-	(196,349)	(452)	(196,801)	
Total comprehensive expense for the period	-	-	-	-	(61,846)	-	-	(134,503)	-	(23,780)	(220,129)	(495)	(220,624)	
Repurchase of ordinary shares	-	-	(5,990)	-	-	-	-	-	-	-	(5,990)	-	(5,990)	
Cancellation of ordinary shares	(1,480)	(4,175)	5,655	-	-	-	-	-	-	-	-	-	-	
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(6,334)	-	-	-	-	6,334	-	-	-	
Payment made for equity-settled share-based payments	-	-	-	-	-	-	-	-	(1,197)	-	(1,197)	-	(1,197)	
Recognition of equity-settled share-based payment (note 16)	-	-	-	-	-	-	-	-	684	-	684	9,516	10,200	
Cancellation of equity-settled share-based payment	-	-	-	-	-	-	-	-	-	10,005	10,005	(10,005)	-	
Balance at 30 June 2022 (unaudited)	318,920	1,178,454	(1,505)	15,514	(55,579)	(405)	176,419	5,473	-	306,042	1,943,333	6,325	1,949,658	
Balance at 1 January 2023 (audited)	317,550	1,175,203	(1,170)	15,514	(68,263)	(21)	176,419	(86,419)	-	252,840	1,781,653	6,123	1,787,776	
(Loss) profit for the period	-	-	-	-	-	-	-	-	-	(50,016)	(50,016)	181	(49,835)	
Other comprehensive (expense) income for the period	-	-	-	-	(78,922)	-	-	(74,384)	-	-	(153,306)	258	(153,048)	
Total comprehensive (expense) income for the period	-	-	-	-	(78,922)	-	-	(74,384)	-	(50,016)	(203,322)	439	(202,883)	
Repurchase of ordinary shares (note 15)	-	-	(1,167)	-	-	-	-	-	-	-	(1,167)	-	(1,167)	
Cancellation of ordinary shares (note 15)	(870)	(1,467)	2,337	-	-	-	-	-	-	-	-	-	-	
Payment made for equity-settled share-based payments	-	-	-	-	-	-	-	-	(1,230)	-	(1,230)	-	(1,230)	
Recognition of equity-settled share-based payment (note 16)	-	-	-	-	-	-	-	-	1,230	-	1,230	-	1,230	
Capital reduction of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(3,442)	(3,442)	
Balance at 30 June 2023 (unaudited)	316,680	1,173,736	-	15,514	(147,185)	(21)	176,419	(160,803)	-	202,824	1,577,164	3,120	1,580,284	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended	
	30.6.2023	30.6.2022
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(628,791)	(212,759)
Investing activities		
Purchase of property, plant and equipment	(35,235)	(59,241)
Net cash outflow from bank deposits for investing purpose	(22,625)	(35,801)
Purchase of equity instruments at fair value through other comprehensive income	(32)	(4,215)
Proceeds from disposal of equity instruments at fair value through other comprehensive income	24	6,334
Proceeds from disposal of property, plant and equipment	9,795	976
Proceeds from disposal of investment properties	9,834	–
Net cash used in investing activities	(38,239)	(91,947)
Financing activities		
Bank borrowings raised	755,743	1,976,172
Bank borrowings repaid	(623,905)	(1,787,318)
Payments on repurchase of ordinary shares	(1,167)	(5,990)
Interest on bank borrowings paid	(21,782)	(6,325)
Repayment of lease liabilities	(1,172)	(2,606)
Interest on lease liabilities paid	(171)	(570)
Net cash from financing activities	107,546	173,363
Net decrease in cash and cash equivalents	(559,484)	(131,343)
Cash and cash equivalents at 1 January	1,825,109	1,884,719
Effect of foreign exchange rate changes	(24,227)	(77,417)
Cash and cash equivalents as at 30 June, representing bank balances and cash	1,241,398	1,675,959

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. BASIS OF PREPARATION

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

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.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”) and application of certain accounting policies which became relevant to the Group in the current interim period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2022.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2023

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of amendments to IFRSs

In the current interim period, the Group has applied the following new and amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules

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

2.1 Impacts and change in accounting policies on application of Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

2.1.1 Accounting policies

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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 and at the time of the transaction does not give rise to equal taxable and deductible temporary differences.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2023

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and change in accounting policies on application of Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” *(Continued)*

2.1.1 Accounting policies *(Continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities 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 taxable temporary differences.

2.1.2 Transition and summary of effects

The application of the amendments has had no material impact on the Group’s financial position and performance.

2.2 Impacts on application of Amendments to IAS 12 Income Taxes International tax Reform-Pillar Two model Rules

IAS 12 is amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the “Pillar Two legislation”). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group’s entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group’s exposure to Pillar Two income taxes in the Group’s annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

3. REVENUE AND SEGMENT INFORMATION

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

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

The Group's revenue is from contracts with customers and mainly arising from the manufacturing services (including sales of goods and processing service) amounting to US\$2,676,717,000 (2022: US\$4,125,264,000), to its customers in connection with the production of handsets.

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

	Six months ended	
	30.6.2023	30.6.2022
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Segment revenue (external sales)		
Asia	1,874,505	2,867,476
Europe	346,479	491,862
America	455,733	765,926
	<hr/>	<hr/>
Total	2,676,717	4,125,264
	<hr/>	<hr/>
Segment profit (loss)		
Asia	37,096	46,600
Europe	(42,265)	4,616
America	10,790	20,330
	<hr/>	<hr/>
Other income, gains and losses	5,621	71,546
General and administrative expenses	110,303	55,792
Research and development expenses	(90,181)	(92,350)
Interest expenses	(26,459)	(37,446)
Share of loss of associates	(23,551)	(7,251)
Share of loss of a joint venture	(3,245)	(4,107)
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Loss before tax	(29,601)	(18,968)
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

3. REVENUE AND SEGMENT INFORMATION (Continued)

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

Segment profit represents the gross profit earned (loss incurred) by each segment, and the service income and certain gains and losses (included in other income, gains and losses) after deducting all selling expenses and impairment loss under expected credit loss model, net of reversal. This is the measure reported to the Chief Executive Officer for the purposes of resources allocation and performance assessment.

4. INCOME TAX EXPENSE

The income tax expense comprises:

	Six months ended	
	30.6.2023 US\$'000 (unaudited)	30.6.2022 US\$'000 (unaudited)
Current tax:		
– Hong Kong	–	–
– Other jurisdictions	22,735	6,746
	22,735	6,746
Overprovision in prior periods:		
– Hong Kong	–	–
– Other jurisdictions	–	(1,283)
	–	(1,283)
Deferred tax (note 9)		
Current period	(2,501)	(608)
	20,234	4,855

No provision for Hong Kong Profits Tax has been made as the Group does not have assessable profits in Hong Kong.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

4. INCOME TAX EXPENSE (Continued)

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% (2022: 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 three years, i.e. effective from 2022 and 2023, respectively. In addition, two of the Company's PRC subsidiaries were entitled to a concessionary tax rate of 15% under the China's "Great Western Expansion" campaign. Except for these subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2022: 25%).

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

5. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2023	30.6.2022
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	77,593	84,397
Depreciation of right-of-use assets	1,724	3,432
Depreciation of investment properties	894	1,219
	<hr/>	<hr/>
Total depreciation	80,211	89,048
Less: Amount capitalised in inventories	(61,905)	(71,278)
Less: Amount included in research and development expenses	(2,328)	(2,773)
	<hr/>	<hr/>
	15,978	14,997
	<hr/>	<hr/>
Cost of inventories recognised as expense	2,619,925	4,014,248
Provision for warranty	1,384	5,220
Write down of inventories to net realisable value	15,787	24,117
Net exchange loss (gain) (note)	6,517	(13,613)
Loss on disposal of property, plant and equipment (note)	2,235	2,689
Interest income from bank deposits (note)	(24,159)	(19,027)
Gain on disposal of investment property (note)	(78,452)	-
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Notes: Amounts included in other income, gains and losses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

6. DIVIDENDS

No dividend was paid, declared or proposed for the six months ended 30 June 2023 and 30 June 2022, and a special cash dividend from the Company will be proposed upon completion of the Proposed Spin-off (as defined below) of Bharat FIH Limited ("BFIH").

7. LOSS PER SHARE

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

	Six months ended	
	30.6.2023	30.6.2022
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Loss attributable to the owners of the Company		
Loss for the purposes of basic and diluted loss per share	(50,016)	(23,780)

	Six months ended	
	30.6.2023	30.6.2022
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	7,919,157,807	7,983,103,751

The calculation of diluted loss per share for both periods does not take into account the share awards issued by the Company as detailed in note 18(b) because it is anti-dilutive nor it has taken into account the impact from the share options issued by its subsidiary as detailed in note 18(a) as the directors of the Company consider the impact is immaterial.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the current period, the Group acquired property, plant and equipment of approximately US\$35,235,000 (for the six months ended 30 June 2022: US\$59,241,000).

In addition, the Group entered into several new lease agreements with lease term of two to three years (for the six months ended 30 June 2022: a new lease agreement with lease term of three years). On lease commencement, the Group recognised right-of-use assets of approximately US\$2,649,000 (for the six months ended 30 June 2022: US\$1,409,000) and lease liabilities of US\$2,649,000 (for the six months ended 30 June 2022: US\$1,409,000). At 30 June 2022, the Group obtained ownership of certain leased assets with an aggregate carrying amount of US\$218,000 (for the six months ended 30 June 2023: Nil) at the end of the lease terms, which were classified as property, plant and equipment.

During the current period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of US\$12,030,000 (for the six months ended 30 June 2022: US\$3,665,000) for proceeds of US\$9,795,000 (for the six months ended 30 June 2022: US\$976,000), resulting in a loss on disposal of US\$2,235,000 (for the six months ended 30 June 2022: US\$2,689,000).

On 2 November 2022, the Group entered into compensation agreements (the "Agreements") with government authority in Hangzhou, Zhejiang Province, the PRC (the "Purchaser"). Pursuant to the Agreements, the Purchaser shall resume the ownership of two properties, 中國浙江省杭州經濟技術開發區11號大街58號、58-2號及58-3號 (Nos. 58, 58-2 and 58-3, 11th Avenue, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC) ("Property A") and 中國浙江省杭州經濟技術開發區 M14-11-10 (M14-11-10, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC) ("Property B") at a cash compensation of Renminbi ("RMB") 607,669,300 (equivalent to approximately US\$87,261,000) and RMB48,728,111 (equivalent to approximately US\$7,226,000) respectively, details of which are set out in the Company's discloseable transaction announcement dated 2 November 2022.

On 15 December 2022, the Group's land use right and the relevant certificates have been cancelled and the Purchaser has resumed the ownership of Property B. Part of the compensation amounting to RMB19,491,244 (equivalent to approximately US\$2,891,000) has been received by the Group during the year ended 31 December 2022 and the remaining balance of RMB29,236,867 (equivalent to approximately US\$4,336,000) was included in "trade and other receivables" as at 31 December 2022 which was subsequently received by the Group in the current period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES (Continued)

During the year ended 31 December 2022, the Group has received an advance of RMB121,533,860 (equivalent to approximately US\$18,745,000) from the Purchaser in respect of Property A, which was included in “trade and other payables” as at 31 December 2022. On 6 April 2023, the Group’s land use right, property ownership and the relevant certificates have been cancelled and the Purchaser has resumed the ownership of Property A. The carrying amount of investment property at date of disposal is US\$8,809,000. The Group has further received part of the compensation of RMB38,285,790 (equivalent to approximately US\$5,498,000) during the current period. The remaining balance is RMB447,849,650 (equivalent to approximately US\$63,018,000) of which RMB303,834,650 (equivalent to approximately US\$42,051,000) was included in “other receivables” under non-current assets and RMB144,015,000 (equivalent to approximately US\$20,967,000) was included in “trade and other receivables” as at 30 June 2023. Accordingly, the Group has recognised a gain on disposal of investment property of US\$78,452,000 during the current period, which is included in “other income, gains and losses”.

During the current period, certain property, plant and equipment and investment properties with carrying amount of US\$1,821,000 and US\$121,000 respectively were transferred to assets held for sale (details are set out in note 11).

9. DEFERRED TAXATION

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

	Allowances for inventories US\$'000	Accelerated tax (accounting) depreciation US\$'000	Tax losses US\$'000	Others US\$'000 (Note)	Total US\$'000
At 1 January 2022 (audited)	(2,922)	3,901	(3,986)	(12,410)	(15,417)
Charge (credit) to profit or loss for the period	499	(241)	(1,193)	327	(608)
Exchange adjustments	102	(163)	(109)	463	293
At 30 June 2022 (unaudited)	(2,321)	3,497	(5,288)	(11,620)	(15,732)
At 1 January 2023 (audited)	(1,635)	(3,262)	-	(5,908)	(10,805)
Charge (credit) to profit or loss for the period	428	125	(2,937)	(117)	(2,501)
Exchange adjustments	10	(97)	105	(267)	(249)
At 30 June 2023 (unaudited)	(1,197)	(3,234)	(2,832)	(6,292)	(13,555)

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

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** *(Continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2023

9. DEFERRED TAXATION *(Continued)*

For the purposes of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	30.6.2023	31.12.2022
	US\$'000	US\$'000
	(unaudited)	(audited)
Deferred tax assets	(17,493)	(14,557)
Deferred tax liabilities	3,938	3,752
	(13,555)	(10,805)

At 30 June 2023, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US\$206,610,000 (31.12.2022: US\$187,610,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 30 June 2023, the Group has unused tax losses of approximately US\$2,176,604,000 (31.12.2022: US\$2,079,531,000) available for offset against future profits. As at 30 June 2023, a deferred tax asset has been recognised in respect of approximately US\$11,329,000 (31.12.2022: Nil) of such losses. As at 30 June 2023, no deferred tax asset has been recognised in respect of the remaining tax losses of US\$2,165,275,000 (31.12.2022: US\$2,079,531,000) 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 US\$521,529,000 (31.12.2022: US\$384,433,000) which will expire by five consecutive years. Other losses may be carried forward indefinitely.

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\$881,013,000 (31.12.2022: US\$849,315,000) 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.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** *(Continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2023

10. TRADE AND OTHER RECEIVABLES

	30.6.2023	31.12.2022
	US\$'000	US\$'000
	(unaudited)	(audited)
Trade receivables	1,372,182	1,744,534
Less: Allowance for credit losses	(142,131)	(91,668)
	1,230,051	1,652,866
Other taxes recoverable	141,867	142,095
Other receivables, deposits and prepayments	146,887	110,684
	1,518,805	1,905,645

The Group generally would issue the invoices to the customers when the goods are passed to the customers, except for certain orders that the Group may also collect advance payments from customers.

The Group normally allows an average credit period of 30 to 90 days to its trade customers, except certain customers with a good track record which may be granted a longer credit period.

The following is an aged analysis of trade receivables net of allowance for credit losses as presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	30.6.2023	31.12.2022
	US\$'000	US\$'000
	(unaudited)	(audited)
0–90 days	1,073,691	1,476,163
91–180 days	88,799	83,477
181–360 days	35,352	89,506
Over 360 days	32,209	3,720
	1,230,051	1,652,866

As at 30 June 2023, the Group provided impairment allowance of US\$142,131,000 (31.12.2022: US\$91,668,000) based on the Group's expected credit loss assessment on its trade receivables.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

11. ASSETS CLASSIFIED AS HELD FOR SALE

According to an arbitral award issued by the China International Economic and Trade Arbitration Commission on 6 June 2023, the Group will dispose of certain property, plant and equipment in Beijing, the PRC, at a consideration of RMB106,918,900 (equivalent to approximately US\$15,100,000) to 北京亦莊城市更新有限公司 (Beijing E-Town Urban Renewal Co., Ltd. for identification purposes only) which is a party independent of the Group. The directors of the Company considered that the held-for-sale criteria as set out in IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” were met, by taking into account the fact that the subject assets were immediately available for sale, and the sale is to be highly probable as appropriate level of management had committed to a plan to sell the assets. Accordingly, the respective assets were classified as assets held for sale as at 30 June 2023. The disposal is expected to complete by end of 2023. The details of the transaction are set out in the Company’s announcement dated 7 June 2023.

On 7 July 2023, the Group entered into a sale and purchase agreement with a subsidiary 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”), the ultimate holding company of the Company, to dispose of certain property, plant and equipment and investment properties in Hungary at a consideration of US\$9,927,000. The directors of the Company considered that the held-for-sale criteria as set out in IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” were met, by taking into account the fact that the subject assets were immediately available for sale, and the sale is to be highly probable as appropriate level of management had committed to a plan to sell the assets. Accordingly, the respective assets were classified as assets held for sale as at 30 June 2023. The disposal was completed on 7 July 2023. The details of the transaction are set out in the Company’s announcement dated 7 July 2023.

The assets attributable to the disposal were presented in the consolidated statement of financial position as at 30 June 2023 as follows:

	<i>US\$'000</i> (unaudited)
Property, plant and equipment	1,821
Investment properties	121
	<hr/>
Total assets classified as held for sale	1,942
	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

12. TRADE AND OTHER PAYABLES

	30.6.2023 <i>US\$'000</i> (unaudited)	31.12.2022 <i>US\$'000</i> (audited)
Trade payables	1,401,211	1,981,288
Other tax payables	115,770	65,327
Accrued staff costs and employee benefits	104,447	137,637
Others	421,931	520,104
	2,043,359	2,704,356

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

	30.6.2023 <i>US\$'000</i> (unaudited)	31.12.2022 <i>US\$'000</i> (audited)
0–90 days	1,350,251	1,790,822
91–180 days	21,038	167,299
181–360 days	7,581	5,087
Over 360 days	22,341	18,080
	1,401,211	1,981,288

13. BANK BORROWINGS

	30.6.2023 <i>US\$'000</i> (unaudited)	31.12.2022 <i>US\$'000</i> (audited)
Bank borrowings	710,860	676,054

Analysis of bank borrowings by currency:

US\$	561,300	563,800
RMB	60,896	112,254
Indian Rupee (“INR”)	88,664	–

The bank borrowings as at the end of the reporting period are unsecured, with original maturity of one to seven months (31.12.2022: one to seven months), repayable within one year and carry interest at fixed interest rates ranging from 2.50% to 8.60% (31.12.2022: 2.20% to 5.41%) per annum.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** *(Continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2023

14. PROVISION

	Warranty provision <i>US\$'000</i>
At 1 January 2022 (audited)	6,323
Exchange adjustments	(404)
Provision for the year	7,761
Utilisation of provision/upon expiry of the warranty period	<u>(10,901)</u>
At 31 December 2022 (audited)	2,779
Exchange adjustments	(87)
Provision for the period	1,384
Utilisation of provision/upon expiry of the warranty period	<u>(1,563)</u>
At 30 June 2023 (unaudited)	<u>2,513</u>

The warranty provision represents management's best estimate of the Group's liability under twelve to twenty-four months' warranty granted on handset products, based on prior experience and industry averages for defective products.

15. SHARE CAPITAL

	Number of shares	Amount <i>US\$'000</i>
Ordinary shares of US\$0.04 each, authorised:		
Balance at 1 January 2022, 31 December 2022 and 30 June 2023	20,000,000,000	800,000
Ordinary shares of US\$0.04 each, issued and fully paid:		
Balance at 1 January 2022	8,010,000,000	320,400
Repurchase and cancellation of shares	<u>(71,261,000)</u>	<u>(2,850)</u>
Balance at 31 December 2022	7,938,739,000	317,550
Repurchase and cancellation of shares	<u>(21,739,000)</u>	<u>(870)</u>
Balance at 30 June 2023	<u>7,917,000,000</u>	<u>316,680</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

15. SHARE CAPITAL (Continued)

During the current period, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of US\$0.04 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
January	6,739,000	0.87	0.84	5,764
March	4,000,000	0.85	0.83	3,374
	<u>10,739,000</u>			<u>9,138</u>
				US\$'000
Equivalent to				<u>1,167</u>

10,739,000 ordinary shares were repurchased and cancelled during the current period.

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

During the year ended 31 December 2022, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of US\$0.04 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
January	10,000,000	1.41	1.37	13,900
March	7,100,000	1.08	1.04	7,559
April	12,900,000	1.09	1.02	13,572
June	11,000,000	1.13	1.01	11,812
July	14,000,000	1.12	1.04	14,930
August	9,261,000	1.04	1.01	9,530
November	5,500,000	0.84	0.80	4,494
December	5,500,000	0.90	0.81	4,645
	<u>75,261,000</u>			<u>80,442</u>
				US\$'000
Equivalent to				<u>10,276</u>

64,261,000 ordinary shares were repurchased and cancelled during the year ended 31 December 2022. Remaining 11,000,000 ordinary shares were cancelled subsequently on 9 January 2023.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** *(Continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2023

16. DEFERRED INCOME

	30.6.2023	31.12.2022
	US\$'000	US\$'000
	(unaudited)	(audited)
Government subsidies	7,282	8,067

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

17. CAPITAL COMMITMENTS

	30.6.2023	31.12.2022
	US\$'000	US\$'000
	(unaudited)	(audited)
Commitments for the acquisition of property, plant and equipment contracted but not provided for	5,890	6,283

18. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

On 26 November 2013, the Company adopted a share option scheme (the "Former Share Option Scheme") for the Company to reward, motivate and retain eligible persons. In order to ensure the continuity of a share option scheme for the Group to attract, reward, motivate and retain the eligible participants which would comply with the new requirements of Chapter 17 of the Listing Rules, the Company adopted the existing share option scheme (the "Existing Share Option Scheme") and consequentially terminated the Former Share Option Scheme. Details of the Existing Share Option Scheme are set out in the Company's circular dated 14 April 2023, and the Existing Share Option Scheme was subsequently approved by the Company's shareholders on 19 May 2023. Since there are no options granted prior to the termination of the Former Share Option Scheme and not then exercised, the Former Share Option Scheme shall remain valid and shall continue to be subject to Chapter 17, only to the extent necessary for the purposes of its termination and ancillary matters (if any) or otherwise as may be required in accordance with the provisions of the Former Share Option Scheme. Since the adoption of the Existing Share Option Scheme on 19 May 2023, no option has been granted under the Existing Share Option Scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2023

18. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(a) **Equity-settled share option scheme** *(Continued)*

Pursuant to approvals from the board of directors and the shareholders of BFIH, an indirect wholly-owned subsidiary of the Company and with the consent of the grantees under the BFIH Share Option Scheme (as defined in the Company's annual report for the year ended 31 December 2022), all of the outstanding share options granted under the BFIH Share Option Scheme have been cancelled with effect from 12 June 2022.

No share option expenses were recognised by the Group for the six months ended 30 June 2023 (for the six months ended 30 June 2022: US\$9,516,000).

Currently, no options have been outstanding under the Existing Share Option Scheme and the BFIH Share Option Scheme. No share option is exercisable for the current period and the six-month period ended 30 June 2022.

(b) **Other share-based payment plan**

On 26 November 2013, the Company adopted a share scheme (the "Former Share Scheme") for the Company to reward, motivate and retain eligible persons. In order to ensure the continuity of a share scheme for the Group to attract, reward, motivate and retain the eligible participants which would comply with the new requirements of Chapter 17 of the Listing Rules, pursuant to the approval of the Company's board of directors (the "Board") on 10 March 2023 and the approval of the Company's shareholders on 19 May 2023, the Company adopted the existing share scheme (the "Existing Share Scheme") and consequentially terminated the Former Share Scheme. Since there are no shares granted prior to the termination of the Former Share Scheme but remained to be subject to the corresponding lock-up periods, the Former Share Scheme shall remain valid and shall continue to be subject to Chapter 17, only to the extent necessary for the purposes of its termination and ancillary matters (if any) or otherwise as may be required in accordance with the provisions of the Former Share Scheme. Since the adoption of the Existing Share Scheme on 19 May 2023, no grants have been made under the Existing Share Scheme.

Pursuant to the approval of the Board on 23 December 2021, the Company offered 7,328,361 ordinary shares to a total of two beneficiaries pursuant to the Former Share Scheme. 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 Former Share Scheme from the market in January 2022.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

18. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Other share-based payment plan (Continued)

Pursuant to the approval of the Board on 2 November 2022 and the subsequent finalisation by the Board's delegate, the Company offered 10,024,204 ordinary shares to a total of two beneficiaries pursuant to the Former Share Scheme of which 10,024,204 ordinary shares were granted with lock-up periods, i.e. vesting period with service condition up to 30 November 2022 from the grant date, i.e. 3 November 2022. No consideration was payable on acceptance of offer of the shares. 10,024,204 ordinary shares were purchased by the trustee of the Former Share Scheme from the market in November 2022.

Pursuant to the approval of the Board on 10 March 2023 and the subsequent finalisation by the Board's delegate, the Company offered 2,869,153 ordinary shares to a total of two beneficiaries pursuant to the Former Share Scheme of which 2,869,153 ordinary shares were granted with lock-up periods, i.e. vesting period with service condition up to 31 March 2023 from the grant date, i.e. 13 March 2023. No consideration was payable on acceptance of offer of the shares. 2,869,153 ordinary shares were purchased by the trustee of the Former Share Scheme from the market in March 2023.

Equity-settled share-based payments of US\$1,230,000 were recognised during the six months ended 30 June 2023 (for the six months ended 30 June 2022: US\$684,000).

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The board of directors of the Company has set up an investment team to determine the appropriate valuation techniques and inputs for fair value measurements.

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 the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
	30.6.2023 US\$'000 (unaudited)	31.12.2022 US\$'000 (audited)				
Forward foreign exchange contracts included under other payables (2022: other receivables)	Liabilities – 5,255	Assets – 228	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
Equity instruments at fair value through other comprehensive income ("FVTOCI")	Listed equity investments – 2,217	Listed equity investments – 2,060	Level 1	Quoted bid prices in an active market	N/A	N/A
Equity instruments at FVTOCI	Unlisted equity instruments – 19,232	Unlisted equity instruments – 24,441	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 – 42,997	Unlisted equity instruments – 117,109	Level 3	Income approach – discounted cash flow method was used to capture the present value of the expected return	<p>Budgeted 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</p> <p>Terminal growth rate, taking into the account the management's experience and knowledge of market conditions of the specific industries</p> <p>Weighted average cost of capital ("WACC") was 13.80% (2022: ranged from 13.61% to 40.00% respectively)</p>	<p>The higher the budgeted sales and gross margin, the higher the fair value, and vice versa</p> <p>The higher the terminal growth rate, the higher the fair value, and vice versa</p> <p>The lower the WACC, the higher the fair value, and vice versa</p>

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** *(Continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*
Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL	Financial assets at FVTOCI
	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January 2022 (audited)	1,900	207,738
Transfer into Level 3 (<i>note a</i>)	–	2,459
Net unrealised fair value loss	–	(57,200)
Exchange adjustments	–	(259)
	<hr/>	<hr/>
At 30 June 2022 (unaudited)	1,900	152,738
	<hr/>	<hr/>
At 1 January 2023 (audited)	–	117,109
Transfer into Level 3 (<i>note a</i>)	–	6,335
Transfer out from Level 3 (<i>note b</i>)	–	(2,000)
Net unrealised fair value loss	–	(78,200)
Exchange adjustments	–	(247)
	<hr/>	<hr/>
At 30 June 2023 (unaudited)	–	42,997
	<hr/>	<hr/>

Note:

- (a) For the relevant financial assets, the recent transaction prices used in prior year was no longer available, therefore, the valuation techniques for relevant financial assets were changed and their fair value measurement was transferred from Level 2 to Level 3.
- (b) For the relevant financial asset, the recent transaction prices was used to determine the fair value, therefore, the valuation technique for relevant financial asset was changed and the fair value measurement was transferred from Level 3 to Level 2.

For the other financial assets and financial liabilities, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued) Financial assets and financial liabilities subject to offsetting

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

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

	As at 30 June 2023 (unaudited)		
	Gross amounts of recognised financial (liabilities) assets set off in the condensed consolidated statement of financial position US\$'000	Gross amounts of recognised financial (liabilities) assets set off in the condensed consolidated statement of financial position US\$'000	Net amounts of financial assets presented in the condensed consolidated statement of financial position US\$'000
Bank balances	321,801	(321,801)	-
Bank borrowings	(321,801)	321,801	-
Interest receivables	9,646	(9,148)	498
Interest payables	(9,148)	9,148	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued) Financial assets and financial liabilities subject to offsetting (Continued)

	As at 31 December 2022 (audited)		
	Gross amounts of recognised financial (liabilities)	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position
Financial assets/liabilities subject to offsetting	US\$'000	US\$'000	US\$'000
Bank balances	220,026	(220,026)	–
Bank borrowings	(220,026)	220,026	–
Interest receivables	3,102	(2,977)	125
Interest payables	(2,977)	2,977	–

During the period, net interest income of US\$1,790,000 (for the six months ended 30 June 2022: US\$1,130,000) was included in interest income under the above arrangement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

20. RELATED PARTY DISCLOSURES

- (a) During the current period, the Group entered into the following transactions with related parties, including Hon Hai, and subsidiaries and associates of Hon Hai other than members of the Group:

	Six months ended	
	30.6.2023	30.6.2022
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Hon Hai:		
Sales of goods	496,305	529,639
Purchase of goods	36,118	61,609
Sales of property, plant and equipment	–	4
Lease expense — real properties (Note)	317	351
Sub-contracting income	26,067	11,185
Consolidated services and sub-contracting expense	2,262	8,749
General services income	44	455
	<hr/>	
Subsidiaries of Hon Hai:		
Sales of goods	21,864	306,074
Purchase of goods	72,281	140,415
Purchase of property, plant and equipment	363	613
Sales of property, plant and equipment	5,700	471
Lease income — real properties	2,947	2,785
Lease income — non-real properties	10	–
Lease expense — real properties (Note)	2,876	2,284
Lease expense — non-real properties (Note)	39	190
Sub-contracting income	11,736	18,267
Consolidated services and sub-contracting expense	15,232	37,235
General services income	195	50
General services expense	4,438	8,385
	<hr/>	
Associates of Hon Hai:		
Sales of goods	264,553	433,097
Purchase of goods	146,858	189,233
Lease income — real properties	18	22
Lease expense — real properties (Note)	42	45
Sub-contracting income	6,106	6,478
Consolidated services and sub-contracting expense	279	619
General services expense	8	–
	<hr/>	

Note: The amounts represented expenses relating to short-term leases in the current period.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** *(Continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2023

20. RELATED PARTY DISCLOSURES *(Continued)*

- (b) At the end of the reporting period, the Group had the following balances due from/to related parties included in:

	30.6.2023 US\$'000 (unaudited)	31.12.2022 US\$'000 (audited)
Trade receivables:		
Hon Hai	228,894	581,001
Subsidiaries of Hon Hai	25,448	23,268
Associates of Hon Hai	87,915	143,433
	342,257	747,702
Other receivables:		
Hon Hai	16	28
Subsidiaries of Hon Hai	5,911	131
Associates of Hon Hai	–	25
	5,927	184
	348,184	747,886
Trade payables:		
Hon Hai	12,501	33,210
Subsidiaries of Hon Hai	47,137	116,682
Associates of Hon Hai	45,884	75,396
	105,522	225,288
Other payables:		
Hon Hai	78	70
Subsidiaries of Hon Hai	2,935	2,225
Associates of Hon Hai	8	8
	3,021	2,303
	108,543	227,591

Balances due from/to related parties are unsecured, interest free and are repayable within one year.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2023

20. RELATED PARTY DISCLOSURES *(Continued)*

(c) Compensation of key management personnel

The remuneration of directors and other members of key management for the current period was as follows:

	Six months ended	
	30.6.2023	30.6.2022
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Short-term benefits	1,187	2,072
Share-based payments	1,230	684
	2,417	2,756

(d) During the current period, the Group entered into the following transactions with a joint venture:

	Six months ended	
	30.6.2023	30.6.2022
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Sales of goods	8,197	17,707
Other income	653	489

The amount due from a joint venture was US\$12,718,000 (31.12.2022: US\$24,321,000), which was included in trade and other receivables (31.12.2022: trade and other receivables), as at 30 June 2023. The amount due from a joint venture is unsecured, interest free and repayable within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

20. RELATED PARTY DISCLOSURES (Continued)

- (e) During the current period, the Group entered into the following transactions with associates:

	Six months ended	
	30.6.2023 US\$'000 (unaudited)	30.6.2022 US\$'000 (unaudited)
Sales of goods	-	351
Other income	1,520	591

The amounts due from associates were US\$1,327,000 (31.12.2022: US\$539,000), which were included in trade and other receivables (31.12.2022: trade and other receivables), as at 30 June 2023. The amounts due from associates are unsecured, interest free and repayable within one year.

21. APPROVAL

The condensed consolidated financial statements on pages 4 to 35 were approved and authorised for issue by the board of directors of the Company on 9 August 2023.

BUSINESS REVIEW

IMPORTANT

The consolidated interim results of the Group for the six-month period ended 30 June 2023 (the “current period” or the “reporting period”) as set out in this interim report are unaudited but have been reviewed in accordance with the relevant financial standards. The Group’s results of operations in the past have fluctuated and may in the future continue to fluctuate (possibly significantly) from one period to another period. Accordingly, the Group’s results of operations for any period should not be considered to be indicative of the results to be expected for any future period. In particular, as there is the Chinese New Year holiday (especially a long break in the People’s Republic of China (“China” or the “PRC”) and Vietnam 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 worse and not comprehensive and representative, compared with that in the other quarters.

The Company refers to its profit warning announcement of 3 May 2023 which provided (among other things) an update on its expected 2023 interim performance and included information about the various factors that contributed to the Group’s consolidated net loss for the current period and were expected to continue into the remainder of 2023. In this respect, please also refer to “Outlook” below.

This interim report contains forward-looking statements regarding the Company’s expectations and outlook on the Group’s order book, business operations, performance, opportunities, risks, 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, changes in general industry and macro-economic environment (such as intensifying tensions and political conditions and deglobalisation), changes in money markets (such as interest rate hikes and inflationary rate and volatility in foreign exchange rates, banks’ failures), changes in capital markets, market saturation, weak demand and slow recovery and vigorous competition and handset commoditisation, shifts in customers’ demand and preferences and sluggish demand and prolonged replacement cycle and shortened demand visibility and managing fluctuations in customer demand and other customer-related challenges that may occur, low asset utilisation, “China Plus One” strategy, and de-risk and decoupling from China, friend shoring, customer outsourcing strategy and customer concentration risk, growing margin erosion pressure, competitive challenges affecting our customers, the risk of customer delays and changes and cancellations or forecast inaccuracies in both ongoing and new programs, seasonality of sales, and higher revenue volatility, changes in sales and product mix, our ability to secure new customers and maintain our current customer base and deliver product on a timely basis, the risks associated with excess open purchase order and obsolete inventory (including the risk that inventory purchased on behalf of our customers may not be

BUSINESS REVIEW *(Continued)*

IMPORTANT *(Continued)*

consumed or otherwise paid for by the customer, resulting in an inventory write-off), the risks of concentration of work for certain customers, the particular risks related to new or recent customers or programs or services (which risks include customer and other delays, start-up costs, potential inability to execute, the establishment of appropriate terms of agreements), changes in commodity price, the ability to realise anticipated savings from restructuring or similar actions, the risk that new program wins and/or customer demand may not result in the expected revenue or profitability, our growth and diversification strategies and plans (and potential hindrances thereto), our credit and collection and default 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 and export controls), the potential adverse impacts of events outside of our control. Although the Group believes these statements are based on and derived from reasonable assumptions, they involve risks, uncertainties and assumptions that are beyond the Group's ability to influence, control or predict, relating to operations, markets and the business environment generally. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual outcomes, including the future results of our business and operations, may vary materially from those indicated. In addition, new and unpredictable risks, challenges and threats emerge from time to time and it is not possible for the management to predict all such factors or to assess the impacts of such factors on the Group's business. For more details, please see "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 and product development services to its customers with improved product and service quality, cost effectiveness, increased flexibility, faster volume to market and time to market, and overall value. The Group changed its head office from Langfang, China, to Taipei with effect from 26 March 2021, and the Group has continued to focus on and expand its operation outside Mainland China.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Introduction *(Continued)*

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 wide 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 after-market services of return management and services and product repair/refurbish solutions in mobile device and smart consumer electronics devices. 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 eReaders, 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 the development of 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. We have a well-established quality management system that focuses on continual process improvement which enables us to consistently deliver high-quality products and services to meet the requirements of customers. Our customers leverage our services to meet their requirements throughout the entire lifecycle of their products and to reduce manufacturing costs, improve supply chain management and efficiency, reduce inventory obsolescence, and shorten time to volume and time to market utilising our large-scale manufacturing infrastructure in various locations and our ability to serve a broad range of end markets. The Group operates a network of sites and centers of excellence strategically located worldwide in China, India, Vietnam, Taiwan, Mexico and America which can fulfill customers' requirements in different countries and reduce landed costs of products. Technology innovation is at the center of our ability to deliver these end-to-end capabilities. Despite the regional shift in the manufacturing sites; the great China region remains one of the Group's Research and Development (R&D) centers to continue providing the time-to product and time-to-market solutions to fulfill our clients' demands.

The handset manufacturing industry is highly dynamic and competitive and growingly saturated. Since late 2017, the Group has faced challenging market conditions and high margin erosion pressure and contraction of demand, and those conditions have continued into the first half of 2023 and will persist into the second half of 2023. Lacking short-term ways to stimulate demand and sales growth, many companies remain focused on preserving their bottom lines by holding down 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

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Introduction *(Continued)*

viewed as a significant restraining factor for the market. Even though, component prices are declining due to the weak demand but the key focus still lies on utilisation and unabsorbed overhead costs. The Group was not insulated from the economic swings of recent years because of its global nature of operations. Aggressive pricing is a common business dynamic as entry barrier is low, and peers in China and India are very cost competitive and margin erosion pressure on both the Group's casing and system assembly business is extremely high and continues to increase, especially when market demand is weak and there is excessive inventory and surplus capacity and the market sector is mired in overcapacity. Idle cost of the Group has been increasing as capacity utilisation (including factory buildings) is deteriorating despite the Group has been aggressively disposing of idle assets. To ensure that the Group has been prepared for an uncertain demand environment, over the past several years, it has aggressively restructured its business operations and carried out downsizing and consolidation activities and eliminated the used, obsolete, redundant, surplus and loss-making/under-performing assets to become an asset-light corporate group and a lean organisation and optimised headcounts and cut costs and expenses with the intention of improving utilisation and realising cost savings in the long term and further cutting its fixed overheads and preserving cash, and such downsizing and trimming activities have continued into 2023. The consolidation activities included consolidation of the buildings and production facilities within the manufacturing sites, largely to align our capacity and infrastructure with current and anticipated customer demand. Through the extra effort made, the Group successfully sold land and buildings in Hangzhou, and the sale was completed during the current period, which recorded a before-tax gain on disposal of United States dollars ("US\$" or "USD") 6.2 million in the second half of 2022 and US\$78.5 million in the first half of 2023. Furthermore, the Group has made provision for compensations to the lessees and the service providers of US\$13 million in the current period. In addition, the Group entered into an agreement for the sale of land and buildings in Hungary on 7 July 2023 and has also proposed to dispose of the buildings in Beijing as announced by the Company on 7 June 2023, which are expected to generate before-tax gains of US\$8.5 million and US\$13.1 million respectively in the second half of 2023. In accordance with IAS (International Accounting Standard) 16 and IAS 40, we should de-recognise the assets when we lose control over them. Therefore, the gain on disposal should be recognised when the transfer of ownership takes place. We do not expect similar disposal gains of huge amount in coming years.

During the pandemic period, 2020 to 2021, the urgent need for a sustaining economy in a global pandemic could very well justify extended quantitative easing (QE) in most economies and global interest rates were low across many developed nation. But it is very clear markets stimulated through loose monetary policy in the past years have created a monster, inflation and the negative side effects went out of control and most countries missed the best window to do a fix for various economic and political reasons. As price indices continued to climb, people expected future interest rate increases. Quick and high interest rate hikes and fast-paced tapering are medicines being put in place in extra heavy dosage aiming to make up the lost time from 2021. The tighter monetary stance adopted by the FED to aggressively curb

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Introduction *(Continued)*

inflation led to steady hikes in the benchmark interest rate. Since 2022, the FED has raised rates ten times thus far to a range of 5.00% to 5.25%. In June 2023, the United States of America ("U.S.") Customer Price Index (CPI) dropped to 3%, while this is a positive development, it is still higher than the FED's target rate of 2% and the inflation is nowhere near there. The FED's decision to hike interest rates increased the attractiveness to hold U.S. interest-bearing assets globally with higher interest rate environment. The preference for U.S. assets also stemmed from the perceived security and better economic growth prospects when compared to other developed countries. Rising inflation would have an adverse effect on people's disposable income and people hold onto their phones longer and the life cycle of smartphones became longer and longer and replacement demand slowed on a lack of product differentiation, and smartphone demand and production have been subject to further downward revisions. In particular, consumers in emerging economies, such as Southeast Asian and African countries, were greatly affected as phones become more expensive due to the strong USD against local currencies. Despite ongoing shocks to the global economy, the FED did not deviate from its plans of monetary tightening and market thus expected a series of rate hikes in 2023 and the cost of credit and borrowing in USD continued to be very expensive in 2023.

2022 was a fraught period of economic slowdown, geo-political realignments, crashing stock market and financial market volatility, aggressive interest rate hikes, skyrocketing gasoline and food prices, and an energy crisis in Europe, and all against the background of surging and record-high inflationary pressures which had rapidly spread from Europe to the world and there was limited room for policy maneuver. Economic headwinds had pushed consumers to curb/postpone discretionary spending like mobile phones and high inventory in channels and low demand with no signs of immediate recovery had made OEMs panicking and cutting their orders dramatically for 2022. The conflict between Russia and Ukraine, which had sparked an energy crisis that had spurred inflation, was the primary driver behind the cost-of-living crisis. A "cost-of-living crisis" simply referred to a scenario in which the cost of everyday essentials like energy and food had been rising much faster than average incomes. The slump in demand plagued the wider industry. Consumers in emerging economies, such as Southeast Asian and African countries, were reluctant to buy phones, which had become more expensive due to the strong U.S. dollar against local currencies. Demand in China, the largest handset market and the Group's major market, had been sluggish. That softer demand had been reflected in reduced end-consumer appetite and reassessments of Chinese brands and inventory accumulation and the industry shifted to a demand-constrained market and end customer became even more price sensitive. In the past, the communication industry heavily relied on manufacturing and supplies from China. However, during the pandemic, the lockdown and control measures in mainland China had a severe impact on the smartphone manufacturing industry, leading to delays and disruptions in the development and shipment of next-generation products. As a result, major mobile and network communication companies accelerated the transition of production sites to mitigate geopolitical risks and address the

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Introduction *(Continued)*

supply chain crisis. On the other hand, Southeast Asia and India have played crucial roles in this transition. Countries like Vietnam have signed bilateral or multilateral trade agreements, enabling them to benefit from lower tax rates or exemptions. The Indian Government has also actively promoted local smartphone manufacturing by providing tax incentives for the production of different types of components.

In the first half of 2023, on the surface, the global economy appeared poised for a gradual recovery from the powerful blows of the pandemic and of Russia's war of aggression on Ukraine and there was better control of overall inflation in many countries. This was primarily driven by tighter monetary policies, continuous interest rates increase by major central banks, improvements in supply chains, and declining energy and food prices. Despite these factors, core inflation, which excludes food and energy prices, remained stubbornly high in several countries, indicating the presence of ongoing inflation pressures. Additionally, major economies experienced tight labour markets during this period, characterised by low unemployment rates and persistent labour shortages. These factors further contributed to the weak global economic growth observed in the first half of 2023. According to the latest data, the JP Morgan Global Composite Purchasing Managers' Index (PMI) remained above 50 in the first half of 2023, indicating expansion, although still within contractionary territory. This suggests a sluggish recovery in the global manufacturing and services sectors. The combination of stagnant inflation and labour market challenges presented significant obstacles to economic recovery and expansion during this period and the mounting geopolitical tensions, interest rate hikes, rising energy prices, economic headwinds and uncertainties, fears of slowdown of global economy, a dip in consumer confidence and decades-high inflation affecting disposal income continue to dampen consumer appetites and push consumers to curb/postpone discretionary spending like mobile phones. As the customers become more cautious to place orders, demand visibility is greater shortened and this makes it difficult for the Group to predict order book and arrange material sourcing and people/demand planning and production scheduling in an efficient manner and asset utilisation continues to be a pain.

In this very high inflationary environment, it is crucial for the Company to prioritise effective cost management and continuously seek avenues for optimising operational efficiency. By identifying opportunities for process improvements and embracing innovative strategies, the Company can, to some extent, mitigate the impact of rising costs and adapt to the evolving market dynamics and enhance the cost competitiveness amidst the challenges posed by inflation. On the other hand, the mix of products ordered by and shipped to major customers will affect the Group's gross margins as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services. Cost reductions without compromising on quality, especially cost containment in parts of our supply chains, is a tough work. During the downturn, delivering top-notch customer service is of paramount importance as this will enable us to stand tall in the future, even when service

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Introduction *(Continued)*

and cost are competing priorities. Every player in the industry is striving to gain and maintain competitive differentiation by adopting new approaches or by realising latent sources of success in existing operations. In the quest for recovery, companies in the handset industry are competing against each other to increase their market presence and share while continuing to face challenges like slim operating margins, low visibility, high inflation, shortening replacement lifecycle and managing a global supply chain. Our customers are trying to overcome these challenges through innovations and launching new products and services.

China's economy in the second half of 2022 was threatened by a smattering of COVID-19 outbreaks across the country that resulted in mobility curbs which dampened consumer and business confidence. On 7 December 2022, the Chinese Government made the decision to relax many of its stringent zero-COVID controls in order to stimulate the economy. However, the recovery process was far from a quick return to pre-pandemic conditions. Since the lifting of COVID-19 lockdown measures in China, there has been a sense of anticipation in the market, with expectations of a consumption boom to drive the Chinese economy. Several research institutions also raised their growth projections for China's economy towards the end of last year and the beginning of this year. However, in the first half of 2023, the Chinese economic recovery fell short of expectations. Several factors contributed to this outcome according to IMF (International Monetary Fund) report. Firstly, the continuous impact of the pandemic over the past three years severely affected production, investment, and consumption, resulting in significant disruptions to the supply chain that will take time to rectify. Secondly, deteriorating U.S.-China relations led to a decoupling and disconnection of the U.S. from the Chinese economy. Thirdly, Western countries, led by the U.S., implemented tightening monetary policies to combat inflation, which had a dampening effect on the global economic recovery as a whole. According to the report of the IMF, China's GDP growth rate in 2023 is expected to be around 5.8%, while the growth rate set by the Chinese Government is 5%. Both estimates are relatively conservative compared with the growth rate of 6%+ in China in the past few years. In the first quarter of 2023, China's economy grew by 4.5%, indicated that the recovery is still relatively slow. Foreign trade also experienced significant slowdown, and China's Manufacturing Purchasing Managers' Index, a sensitive indicator, recorded a value of 48.8 in May, marking the second consecutive month of contraction and reaching its lowest level since December of 2022. This serves as the latest indication of weakening momentum in the post-pandemic economic recovery. Additionally, China's economy grew just 0.8% in the three months to the end of June and the economic slowdown is reflected in the continued depreciation trend of the Chinese yuan. Overall, the weak momentum and observed trends in the first half of 2023 have raised concerns about the prospects of further economic development in China. To address this situation, the Chinese Government is implementing more aggressive fiscal and monetary policies, such as lowering interest rates, reducing taxes, and waiving fees, to stimulate consumer spending and enhance overall economic activity. China's rebound is crucial to global economic growth this year as

DISCUSSION AND ANALYSIS *(Continued)*

Introduction *(Continued)*

developed nations grapple with persistently high inflation, rising interest rates and sluggish expansion in the wake of the pandemic and Russia's full-scale invasion of Ukraine. But China's economy and export had been pressured externally by the Ukraine crisis and a global slowdown due to interest rate hikes to curb inflation and global demand for Chinese goods has fallen significantly. There are also concerns over ballooning local government debt and the housing/property market.

The high youth unemployment of China is deteriorating. The monthly surveyed unemployment rate for those of 16 to 24 years old in urban areas rose sharply in March this year, to 19.6%, exceeding the 16.7% rate recorded in December 2022 and posting its second-highest level on record. The unemployment rate for urban youth then continued to climb and the jobless rate rose to 21.3% in June. Structural factors explain some of this, including a long standing supply glut of university graduates, even as Chinese factories have struggled with labour shortages. There is also a mismatch between what graduates were trained to do and the jobs currently available. Nevertheless, higher youth unemployment indicates the uneven nature of China's ongoing recovery. Sluggish investment by the private sector, which contributes to nearly 90% of urban job creation in normal years, will continue to put a cap on youth employment. Furthermore, consumer preferences prioritise travel and entertainment over purchasing mobile phones, resulting in a decline in orders for mobile phones. According to a report from the International Data Corporation (IDC), during the first quarter of 2023, the Chinese market saw a decline of 12%. As a whole, global economic slowdown with China's slow economic recovery and increasing youth unemployment rate, and poor demand and shift in purchasing preference and increased inventory across all regions and, had played a pivotal role in sapping momentum for smartphone sales in 2023. Thus, the Group endeavor to diversify business risks by expanding into other product categories other than mobile phone; the Group had continued the organisational adjustments to enhance business development functions gearing toward the global markets.

While uncertainties persist in China's economy and geopolitical risks, the impact of the Russia-Ukraine war on the world has gradually diminished. In 2022, months of the Russia-Ukraine war caused extensive damage to Ukraine and had a transformative impact on the World's economic and GDP, financial, and geopolitical status quo. The effects had been wide-ranging and unequal among countries, contributing to global food shortages, a European energy and cost of living crisis, mounting geopolitical tensions, and rising inflation. However, in the first half of 2023, despite the ongoing war, its impact on the global economy gradually mitigated. As Europe underwent structural adjustments and reduced its dependence on energy from Russia, it successfully freed itself from Russia's energy constraints. Although the cost of energy increased significantly, Europe gained greater political autonomy. The most significant gas market in Europe demonstrated clear signs of recovery as gas prices steadily declined after implementing price caps and having a mild winter. Europe successfully navigated through the most challenging period and alleviated concerns about a European recession crisis. During this time, Europe had nearly a year to build additional gas storage

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Introduction *(Continued)*

facilities, mitigating supply disruptions despite rising costs. Oil prices also returned to pre-war levels, and weak global demand prompted many OPEC (Organization of the Petroleum Exporting Countries) countries to reduce production to stabilise oil prices. Wheat prices originally recovered to pre-war levels due to the stable implementation of the Black Sea Grain Agreement, under which it had allowed Ukraine to export grain from its seaports despite the ongoing war. But Russia walked out of the Black Sea deal on July 17 after saying its demands to ease sanctions on its own grain and fertilizer exports had not been met. Moscow also complained that not enough grain had reached poor countries. Global wheat prices have spiked since Russia quit the pact, which was brokered by the United Nations and Turkey in July 2022, and began targeting Ukrainian ports and grain infrastructure on the Black Sea and Danube River. While the overall impact of the war on the economy was relatively smaller compared to the previous year, the future development of the conflict remains highly uncertain. The extent of its impact and disruption on the global economy will depend on the war's duration, the level of destruction and disruption it causes, and the long-term implications for multilateralism and the global order. As some of the Group's customers sell/distribute phones to Europe/Africa, the Group has to continue to monitor the developments and take necessary precautionary measures in a proactive manner to minimise possible impacts to the business and operations of the Group.

In view of the prolonged phone replacement time, phone commoditisation, slowdown in growth rate and decline in global smartphones shipment, the Group is committed to diversifying the revenue contribution from mobile phones and mitigating the concentration risk of dependence on a single customer and product and region and devote additional resources on business development function and capabilities. But there are inherent difficulties to penetrate existing customers and develop new customers. Facing the strong headwinds, customers have to minimise risks and optimise cost and may shift production between EMS (Electronic Manufacturing Services) and ODM service providers for a number of reasons. They include changes in competition landscape and consumer behaviour and propensity to spend, "China Plus One" strategy, deglobalisation, re-shoring, near shoring, demand for their products, market acceptance of new products and models, global economy, regional geo-political tensions, reshoring plans of suppliers/customers, labour cost, pricing concessions, more favourable payment terms and conditions, tax efficiency, diversification of risks, enterprise risk management, environmental, social and governance, (ESG) compliance, optimisation of logistics costs and value chain, quality of engineering and product development services, on-time delivery and tax benefits. Customers may also change their outsourcing strategies and the amount of business they outsource in order to integrate vertically or consolidate through their supply chain capacity or rotating their supply chain partners or increase specialisation through further contracting or the concentration of location of their EMS suppliers. Actually, the Group has faced such a detrimental risk during current period as one of our major customers has outsourced to new EMS partners in China and India.

The Group will continue to monitor the dynamics and impacts of the global economic and financial environment and geo-political tensions and Russia warfare and read and respond to

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Introduction *(Continued)*

the market carefully, especially movements of its competition, to understand what the status of market inventory and liability is, because it will define how the market will recover from current turbulence and work to manage our risk, strategies, capital structure, treasury risk management, organisation, priorities, costs, overheads, footprint, credit risks, receivables collection, working capital management, capital expenditures and resources in a proactive manner to anticipate and prepare for any changes we deem necessary and make continuous improvements and remain lean and agile and cost competitive. With the R&D capabilities and competencies and know-how in working with a wide range of materials and craftsmanship and the provision of a wide spectrum of value-adding design services and 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 in performance, cost, volume-to-market, time-to-market and manufacturability and product design requirements and offer comprehensive and competitive one-stop-shopping manufacturing solutions that are customised to each customer's needs worldwide. To maintain our market position and strengthen our competitiveness, we have taken proactive measures to drive the development of innovative and captivating design solutions that cater to the evolving needs and preferences of our target market. Our global design teams are focused on delivering flexible solutions and expertise which aims to help customers reduce overall product costs, improve time-to-market, introduce competitively differentiated products, and drive hardware innovations. By leveraging the power of innovation and collaboration within our organisation, we strive to achieve operational excellence and gain a stronger competitive edge.

As a whole, the market for OEM and ODM services is characterised by rapidly changing technology and continuing process development, and the Group devoted resources to these two areas to enhance our capabilities and long term sustainability. Our continued effort on business diversification and development and transformation and downsizing and remaining lean and expanding overseas operations and making continuous improvements are critical to the long term sustainability and competitiveness of the Group and strategically positioning the Group to take advantage of the future growth prospects of OEM/ODM industry and makes us a stronger and trusted long term partner to our customers. The Group adopted a proactive and aggressive business strategy, establishing a dedicated business development team to drive expansion into new markets and seize growth opportunities. We believe our strategic focus on developing innovative design solutions, fortifying supply chain management, diligently managing costs through effective bill-of-material oversight, and improving our value add through streamlined production processes positions. Through these initiatives, our customer-centric approach can promote increased efficient customer response, particularly for customer relationships that extend across multiple production locations when more customers are now increasingly evaluating supply chain alternatives in Asia Pacific region and establish the Group as a prominent force in the industry, unlocking our full potential for sustainable growth.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

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 mechanical design and assembly and after-market services of phone and provide a complete range of cost-competitive and vertically-integrated global supply chain solutions of various volume for its customers. Such initiatives accelerate production start-ups and efficiently bring new products to mass production and can help accelerate product time-to-volume and time-to-market and scale production for rapidly changing customer demands. This also enables customers to leverage on the Group's supply chain solutions to meet their product requirements throughout the entire life cycle of their products and allows new products of customers to be launched to the highly competitive marketplace in an accelerated time frame and reduces the cost required to deliver higher quality products to market and cycle times of their supply chain and the working capital requirements associated with carrying inventory and total cost of ownership. Recognising the critical significance of supply chain management, we have prioritised strengthening our practices to ensure the smooth and efficient delivery of components and materials. Through meticulous optimisation of our supply chain, we aim to minimise costs, improve lead times, and establish a distinct competitive advantage within the industry. We can also leverage our supply chain practices globally to control material costs, minimise lead times and improve efficiency of our planning cycle to better meet volatility in customer demand and improve asset utilisation and control inventory levels. Cost management is a crucial element of our overall strategy. We maintain rigorous oversight of our Bill-Of-Material (BOM), actively seeking opportunities to maximise cost-efficiency while maintaining unwavering product quality standards. This entails fostering strong relationships with suppliers to negotiate favourable pricing terms, exploring alternative sourcing options, and continuously evaluating the quality, value and performance of our components.

In the past, rapid changes in technology and craftsmanship, evolving industry standards and requirements, handset market landscape, consumer behaviour, and requirements for continuous improvement in products and services resulted in shorter product life cycles. The Group secures front-end trends by working closely with supply chain and suppliers (including Hon Hai Technology Group via vertical integration), managing both procurement and inventory and quick response manufacturing services and creating win-win for both the Group and customers by developing practical and total solutions which can enhance competitiveness of customers via continuous and close interaction with the materials/component marketplace. We operate flexible manufacturing facilities and design our processes to accommodate customers with multiple product lines and configurations. Simultaneously, we are dedicated to enhancing our Manufacturing Value Add (MVA) by streamlining production processes, reducing waste, and improving operational efficiency. By elevating our MVA, we can optimise productivity, reduce manufacturing costs, and expedite product delivery, thus solidifying our

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

competitive position in the market. All these help to foster and maintain the Group's long term relationship with customers and expand these relationships to include additional product categories and services. Such repeatable execution driven by a collaborative and customer-centric culture that continuously evaluates and optimises our business processes and adapts to ever-changing macro-economic conditions and provides clear value to customers. The building up of such competencies is also critical to the development of new customers.

In December 2022, China authorities finally scrapped the zero-COVID policy. As mentioned above, because of the deterioration of global economy and China's slower-than-expected economic recovery and its rising youth unemployment rate, there remains uncertainty in the global demand for consumer electronic products. Additionally, factors such as reduced consumer purchasing power and market saturation have further contributed to prolonged handset replacement time. Furthermore, with the commoditisation of smartphones, market volatility increases a lot and end customers become more price sensitive and cost-conscious in anticipation of an economic downturn and reduction in disposable income, and reduce discretionary/non-essential spending. End market demand becomes sluggish and uncertain and volatile and all these unfavourable factors intensified the competition of the global handset market and our customers are more cautious in their demand planning, expense and cost control, cash flow management and demand visibility is greatly shortened. Some customers have too many inventory on hand and still fight hard to consume those inventory and they are inclined to cancel potential new projects (even some which are already ranged under development by ODMs) to push out the new models to a later time frame to reduce risk and working capital requirement. In the meantime, the competition becomes fiercer as less new models mean the open spots are tough to grab. The 18 June is the mid-year shopping festival in China's e-commerce industry, during which many merchants offer discounts and promotions to boost sales and consumer sentiment. Therefore, the consumption patterns on that day are often considered as an indicator of economic conditions. According to a market research report, this year's 618 shopping festival experienced a 7% decline compared to the same period last year, suggesting a sluggish performance in China's economic data. Despite various attractive offers from Chinese e-commerce platforms, it is still challenging to revive weakened consumer confidence. In light of sharp decline of handset demand, customers which own manufacturing facilities and capabilities may reduce outsourcing so as to optimise its own capacity utilisation. One of the Group's customers had been keen to find new manufacturing partners in China and India and reduced the percentage of outsourcing to us and this has been affecting the sales to this customer significantly. On the other hand, customers may fail to successfully market/sell their products, and customers' products may not be price competitive and fail to gain widespread commercial acceptance and customers may experience dramatic market share shifts in demand which may cause them to lose market share or even downside/exit businesses. As the margins of the customers are reduced, they are prone to cut the prices of the handsets we sell to them and margin erosion

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

pressure on us is extremely high. At the same time, the Group has been aggressive in getting more orders in order to optimise utilisation. If production volume is low, we will have huge unabsorbed manufacturing overhead costs and idle costs which will affect the already low gross profit margin. This explains why the Group has been putting effort into cutting costs and terminating loss-making/under-performing operations. Another adverse factor is the saturation of Chinese smartphone market. According to research firm IDC, Chinese smartphone market is severely saturated, the main factors are insufficient product innovation, lack of killer applications, and declining consumer incomes, which could mean the end of China's more than 10-year smartphone boom. The penetration rate of mobile phone is much higher than the global average, resulting in intense brand competition. Leading brands in China suffered more as China's domestic market contracted more than the rest of the world amidst rapid deterioration of China's economy and price-conscious consumers backed off from spending more in product segments that were dominated by them. The recovery will depend on how quickly and to what extent normal economic and operating conditions can resume. It is a long journey to return to pre-pandemic levels.

The short-term nature of the Group's customers' commitments and demand visibility and the rapid changes in demand for their products reduced our ability to accurately estimate future demand and requirements and the timing and predict order book of our customers with reasonable certainty. This made it difficult to plan and schedule production and shipment, and resource planning and hiring in an efficient and cost-effective manner so as to optimise utilisation of our assets and workforce and capacity and at the same time fulfilling orders. Yields and efficiencies were greatly affected and idle costs increased dramatically and margin erosion pressure continued to be extremely high. To mitigate the challenges posed by low demand visibility, we are enhancing our business development efforts in different regions by assigning key account managers to be located close to our clients. This proximity will improve communication efficiency and the close interaction enables us to respond quickly to their needs, fostering stronger relationships and gaining better visibility into their demand patterns. We will also critically review the expansion of service and product offerings to a wider range of solutions that cater to diverse customer requirements. By having more options available, we increase our chances of securing contracts and winning bids, thus enhancing our demand visibility. There is also a need to continuously improve our cost competitiveness of our BOM and MVA through various measures. These include enhancing supply chain flexibility, optimising resource utilisation, and exploring diversified collaboration models to meet the unique needs of different customers. Strengthening customer relationships, collaborating closely with key customers and suppliers, adopting flexible production and inventory management strategies, and diversifying our customer base and product offerings will enable us to better anticipate and respond to changing demand patterns. Through these proactive measures, we aim to improve demand visibility. But as the uncertainties are high, the Group had to control overheads and inventory level and open purchase order exposure and liabilities

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

and get rid of idle assets to reduce idle costs and remain lean but agile and streamline production processes and monitor closely market and competition landscape and labour availability and review business model and contribution margin performance of the orders and credit position of customers and communicate well with customers and determine the levels and volume of business that the Group can take. The geo-political tensions and roaring inflation had stalled the global economy and the repercussion affected all of our customers.

Furthermore, 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 hardware and development innovation and a lack of product differentiation, improved smartphone quality, smaller and narrowing gap between high-end and low-end models, and the longer duration of smartphone usage. Customers become more selective and have less intention to purchase a new handset as the old phone is still usable and the new-released models don't have good innovation or give more attractive features. A degree of 'innovation fatigue' has set in, with consumers complaining that the latest models aren't as much of an improvement on the last as was once the case. As the technology has improved, handsets are not just being packed with more and more features, they are being made more robust and reliable, with better support and simpler repairs. This obviously lends itself to longevity, owners can use a phone for much longer before they are forced to change it because it has reached the end of its life. The maturity of the market also means that a lot of the hype around smartphone technology has started to settle down. According to Strategy Analytics, replacement cycle has been lengthening from 2014 onwards, coupled with de-subsidisation, lack of major innovations, smartphone booming in emerging markets, and increased low-income prepaid smartphone users in emerging markets. COVID-19 hit the global smartphone market and further increased global smartphone replacement cycle to 43 months in 2020, before recovering slightly in 2021 due to easing COVID-19 restrictions and the vaccination rollout across the world. It is forecasted that the recovery was swiftly halted due to the Russia/Ukraine conflict, and the subsequent rise of energy prices and high inflation and it is expected that global smartphone replacement cycle to start to slowly rebound from 2023 onwards, mainly triggered by gradual economy recovery and 5G migration and global smartphone replacement cycle will improve to 41 months by 2027. Regionally, North America leads the pack with the shortest replacement cycle, followed by Central and Eastern Europe. Africa Middle East posts the lowest smartphone replacement rate among all regions due to higher prepaid user base, lower Gross Domestic Product (GDP) per capita and disposable income. No phone is exponentially better than last year's version, and it is obvious that the lesser the percentage difference in utility an upgrade can make. In order to induce replacement demand from consumers, global handset makers believe that it is essential to ramp up their launch of smartphones of new form factors (e.g., foldable handsets, self-developed IC chips with high efficiency and under-display cameras) or diversify into products boasting new hardware (e.g. extended reality (XR) functionality). Rising inflation triggered by U.S. previous quantitative

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

easing and Ukraine war would have an adverse effect on people's disposable income, which would likely further prolong the replacement cycle in the smartphone. Due to inflation's broad and profound and far-reaching influence, it is not yet possible to determine the extent of its effect on the global smartphone market, but there is indeed a high risk of continuous downward revisions.

As the Group's customers in different segments faced different types of headwinds, the Group's segment performance in different countries was affected by different degrees and extent and in different areas. As the current economic crisis unfolded against the backdrop of a keen competitive market environment, slow recovery, and reduced income and the increase in borrowing costs put a strain on the solvency of customers and companies, the Group had kept monitoring the collection and default risks. In particular, the Group has been controlling business amounts and capping trade receivables amount with HMD Global Oy ("HMD") to control credit exposure and made adequate expected credit loss allowances in the book to reflect the collection and default risks.

As long-term partnerships and relationships have been established with customers, the Group is able to communicate effectively with the customers and accelerate manufacturing while meeting delivery, specifications and quality requirements from customers. At the same time, the Group has been consistently putting effort on improving operation management, cost effectiveness, process and efficiency optimisation, quick response manufacturing, lean manufacturing, quality management, R&D, 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 and professional manner. The Group is dedicated to continue to build good corporate governance structure and competitive advantages and core competencies that are core to our success and competitiveness and long term sustainability and this includes focuses on global deployment in India and Vietnam, as mentioned above, competitive costs, superior quality and customer service, continuous dedication of resources to R&D competence building, and enhancement of end-to-end service offerings, talent development especially in R&D and industrial design and engineering capabilities, rapid and shorter product development cycles, use of new material and technologies and solutions that are environmentally friendly, ability to design for large- volume and low-cost production, and control of multiple production inputs through our vertically integrated operations. Given that the industry is dominated by consolidated significant players and in cases where the Group is going to develop 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 to develop new customers and 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

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

approximately two to ten months to customise the Group's production facilities depending on requirements of customers, delivery lead time, the complexity and sophistication and volume of products and technologies needed and associated business models and business/credit risks.

In light of the handset market saturation, the Group has to be technologically innovative and intensifies its focus on manufacturing efficiency and productivity and devotes resources to keep pace with technological changes in the industry and adapt our services so that our customers can use better and cost competitive solutions in their products. Regardless of the size and scale of the customer, we establish the long term business relationships with our customers 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, offering customised services and solutions and flexibility to customers, and creating customer delight and satisfaction 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 leverage talents of the Group. The Group believes its long term business relationship with major customers are the result of the Group's proven 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 in the growingly difficult and competitive and saturated market. We are a high performance, accountable organisation with a talented and engaged workforce that is deeply passionate about driving growth and development through excelling customer service and offerings. But there has been more than usual pressure on pricing coming from the largest players in the industry fighting against the deteriorating trend in market share development and prolonged replacement cycle time and all of the Group's customers have been facing intensifying challenges of various kinds, both operational and financial and winning business is subject to lengthy, competitive bid selection processes and we have to dedicate significant development expenditures and engineering resources in pursuit of a single customer opportunity. To reduce concentration risk, we focus on identifying and developing relationships with new customers that meet our targeted profile, which includes financial stability, need for OEM/ODM services or turnkey manufacturing, growth potential and long-term relationship stability. The Group has also made concentrated efforts to devote resources and effort on business development capability and continue to explore opportunities in new projects, new products, new industry sectors and new customer development in different countries 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 competitors by means of keeping pace with technological changes and competitive conditions in OEM and ODM industry, effectively adapting our services as our customers react to technological and craftsmanship

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

and market changes and competitive conditions in their respective market segments, optimising and streamlining production and lean manufacturing process, upgrading equipment, improving quality and responsiveness and flexibility and yield, 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 highly competitive and dynamic market without growth a sustainable business with a well-balanced and diversified portfolios from a customer and product and geographical diversification perspective and is looking for continuous improvement all the time with ample resources dedicated to competence building and R&D capability.

(I) Overseas Operation in Asia

A China Plus One strategy is when a company avoids investing only in China and focuses on diversification by producing goods in China as well as manufacturing in other promising developing countries such as India, Bangladesh, Thailand or Vietnam. With a backdrop of trade tensions and increasing production costs in China, COVID-19 in the past years has accelerated existing trends in encouraging multinational companies to diversify their supply chains. Even before the pandemic many companies were beginning to seek cost-competitive options to China to alleviate supply chain risks. The vulnerabilities of what was believed to be a reliable Chinese manufacturing and distribution process were exposed by the pandemic, and have contributed to the fast-track of a manufacturing shift to other Asian countries. Companies increasingly believe that diversifying the sourcing portfolio from China will help address numerous challenges, whether in supply chain, logistics or availability of raw materials. India and Southeast Asia in particular are undertaking initiatives and implementing policies that will facilitate their emergence as the new hubs for manufacturing. Although China will remain a key player, it is expected that many more businesses will move towards a China Plus One supply chain strategy in the future. To promote new investments, Southeast Asian countries are increasing the ease of doing business, implementing tax cuts, offering fiscal incentives for special economic zones/industrial parks, and boosting infrastructure spending. With supply chains stretched thin and backups at ports in the first half of 2022 and China's zero-COVID policy, some of the Group's customers have been asking to carry out some of the production out of China to reduce reliance. On the other hand, nearshoring is becoming growingly popular. Nearshoring happens when a customer decides to outsource work to companies that are less expensive and geographically closer to their end markets. Nearshoring is gaining speed and relevance as "deglobalisation" continues to take place, accelerated by growing tensions between the U.S. and China. As China's export dominance wanes, a massive opportunity is opening for other emerging market countries to fill the void, including Mexico, India, and Southeast Asian nations. The Group believes that maintaining a global footprint

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

(I) Overseas Operation in Asia *(Continued)*

and expertise and regional capacity and capability are vital to reduce obsolescence and maximise cost competitiveness whilst simultaneously retaining the capacity to supply products and services around the world at comparable quality, and mitigating supply chain risk 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 also 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 and service offerings (in particular ODM services) will continue with larger expansion in India with huge domestic market which continues to grow in coming years. India is quickly becoming the “China Plus One” location, as supply chains move West, out of China. India also benefits from a cost advantage with positive demographic tailwinds. India is also experiencing growth in manufacturing clusters on the back of a production-linked scheme that offers revenue-linked subsidies. India also has attractive attributes such as a diverse business landscape, a large pool of skilled and affordable workforce (particularly in the manufacturing sector), competitive labour costs, huge domestic market with growing spending ability and robust GDP, large English-speaking young population, strategic location, strong macroeconomic indicators, and as table political environment and all these making India an attractive destination for businesses looking to reduce production costs. Additionally, on the policy front, India’s favourable business environment, including the development of new industrial corridors, initiatives including Make-in-India and FDI (Foreign Direct Investment) liberalisation have made it easier for businesses to set up operations in India and helped bolster India’s position as a promising player in the supply chain. By leveraging India’s strengths, global businesses can effectively mitigate risks and ensure business continuity and resilient supply chains. At present, there is a lot of focus on Vietnam and India, as both countries are critical economic zones for new supply chain connections and both Vietnam and India can complement each other in the Indo-Pacific supply chain network.

(a) India Operation

Bharat FIH Limited (BFIH) is one of the largest EMS provider in India which commenced operations in 2015 with a focus on the manufacturing of mobile phones serving the largest smartphone OEMs in India. BFIH’s aim is to maintain its position as the leading EMS provider in India and to become a leader in the country’s ODM market in the near term. In addition to BFIH’s well-established EMS services and capabilities, which mainly comprise manufacturing services,

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

(I) Overseas Operation in Asia *(Continued)*

(a) India Operation (Continued)

BFIH has been building the capabilities to provide OEMs with a comprehensive, vertically integrated “one-stop solution” comprising a range of ODM services including product design and development, component manufacturing and sourcing, logistics, and after-sales services. With expansion of service offerings, BFIH will be able to further reduce manufacturing costs, improve supply chain management, reduce inventory obsolescence and product fulfilment time, and meet their time-to-market, volume-to-market and time-to-money requirements. Mechanical parts and casings are key components of mobile phone and BFIH has also started mechanics services for feature phones years ago so that it can reduce the dependence on third- party providers. It is also building the capabilities to provide mechanics services for smart phones and this can assist mobile phone OEMs with their time-to-market and time-to-volume requirements. In this regard, BFIH intends to deepen its localisation strategy to manufacture and source components and other inputs, thereby reducing dependence on imports and hedging against the risk of global supply instability.

Since March 2021, BFIH has been using its EMS experience and the ODM capabilities to diversify into new high growth industries other than mobile phones including telecom, mechanics, electric vehicles, televisions and hearables to reduce risk exposure from single segment of mobile phones and create further opportunities for revenue diversification. BFIH is keen to enhance its R&D capabilities and commence exports to attractive growth markets. BFIH's collaborative relationships with industry-leading OEM customers are crucial to its success. BFIH intends to further empower its strategic business units to formulate strategies tailored to the needs of specific industries, and to deliver ODM solutions to its OEM customers on a modular and collaborative basis. Through such collaboration, BFIH deepens its relationships with its major customers by providing them with a wider range of vertically integrated service offerings, and integrating innovative solutions into their design processes and product development.

BFIH conducts its operations across three campuses based in the states of Andhra Pradesh (AP) and Tamil Nadu (TN) in India, each of which integrates manufacturing, warehousing, logistics and accommodation facilities. Its campuses comprise an aggregate of approximately 90+ production lines consisting of surface mount technology (SMT) lines, full product assembly lines and sub-assembly mechanics lines. Its campuses are staffed with a workforce of over 12,000 of whom approximately 82% are women. BFIH's operations are

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

(I) Overseas Operation in Asia *(Continued)*

(a) India Operation (Continued)

enhanced by its product R&D teams who operate at its R&D centre based at the Indian Institute of Technology (Madras) Research Park. BFIH's R&D capabilities enable it to offer customers innovative EMS and ODM solutions, and also provide technological solutions to increase operational and cost efficiencies in its own processes.

BFIH is going 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. BFIH is focusing on building design and product development capabilities, which will enable it to become involved at an early stage in its OEM customers' product lifecycle and position it to capture other parts of the ODM value chain. In furtherance of its R&D strategy, BFIH continues to deploy and its localisation program and recruits a number of hardware, mechanical, industrial and software design engineers, with the aim of building a strong local product design and development team who will enhance the capabilities of its existing R&D resources. BFIH R&D center offers product design and development services catering to segments including smartphones, IoT (Internet of Things), network infrastructure, EV sub-systems and smart TV. R&D skills of BFIH include industrial and UI/UX (User Interface/User Experience) design, mechanical design, hardware design and software and firmware Design. For industrial and UI/UX Design, it aims to be creative differentiator with intuitive UI/UX, product look and feel according to Indian/global customer taste and focuses on innovative, creative ideas and execution. For mechanical design, BFIH focuses on creating robust design, experiment with modular concepts with emphasis on cost optimisation, innovation and execution. The mission is to offer best-in-class quality and reliability of the every entire product that BFIH designs. For hardware design, BFIH creates robust hardware design which are aligned with customer usage behavior and closely coordinated with chipset manufacturers and all designs focus on cost competitiveness, quality and reliability of product. For firmware and software design, BFIH aims to leverage abundant Indian IT skills to improve the performance and reliability of products and customises Android for auto application and develop telematics as per OEM requirements.

The recruitment, training, talent development and retention of skilled and experienced management and employees is essential to enable BFIH to deliver high quality services to its customers. BFIH continues to provide its workforce with training and development programmes, including external vocational and skills training. As part of its ESG initiatives, BFIH will continue to recruit and

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

(I) Overseas Operation in Asia *(Continued)*

(a) India Operation (Continued)

promote women in its workforce. Its environmental initiatives include the integration of sustainable practices in its business by building green capabilities, managing water consumption and monitoring our CO₂ (Carbon Dioxide) emissions. BFIH continues to adhere to the required standards of environmental compliance in its operations (including ISO 14001:2015 certification for environmental compliance management systems), and strives to ensure ESG adherence across its business and supply chain, thereby also assisting its OEM customers and their ultimate consumers in their ESG objectives and aspirations. Lately, higher prices of smartphones and general inflationary pressures are slightly hurting demand for the devices in India. Also, there are some signs of the replacement cycle going up, meaning consumers are keeping their current device a little longer (compared to 2019/20) and delaying the purchase. First-time smartphone buyers are unable to enter the smartphone market due to higher costs of acquiring a smartphone spurring a slowdown in conversion of feature phone users to 4G/5G smartphones.

In order to expand business in the short-term, engagement with new age start-ups and e-commerce companies is being increased for electronics manufacturing. Cost and efficiency measures to compete vis-à-vis Vietnam and China are being ramped up. Business models are being relooked at to suit the overall interests of BFIH. Headcount for ODM functions is being increased to develop capability to offer complete end-to-end design solution to the customers. For the long-term, the vision is to offer maximum value addition by fabricating PCBs and displays, make phones and other accessories such as TPU (Thermoplastic Polyurethane) covers, wearable shells and power adapters for laptops and switches.

BFIH is keen to do export business as BFIH's location in India provides it with a geographical advantage and enables it to deliver products to local markets in those regions quickly and at competitive cost. In furtherance to its export strategy, BFIH has already started exporting some feature phones to the Middle East for our customer and is also exploring opportunities to collaborate with mobile operators in Europe and the U.S., with a view to exporting mobile phones and wearables that they can offer to their network customers. In addition to mobile phone and wearables exports, BFIH intends to explore other opportunities that global OEM customers present as part of their own strategy of geographic diversification in their manufacturing and supply chains, and which leverage on the geo-political advantages that India offers. BFIH expects that the Production

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

(I) Overseas Operation in Asia *(Continued)*

(a) India Operation (Continued)

Linked Incentives (PLIs) that it is eligible for, as well as certain duty remission policies for exports, will further enhance its export opportunities. It intends to explore the benefits of the Mobility in Harmony (MIH) Open EV alliance at the global level for product development and exports. The key short-term objective of the telecom and networking products BFIH is to gain market share in EMS services of this industry as well as explore opportunities to export our telecom and networking products. Currently, no component shortage is being witnessed which can have a material impact on BFIH's operations. Rising inflation and a rise in input costs is weakening demand for mass market smartphone models and this remains as the biggest risk on business in 2023.

On 13 May 2023, the Group published an announcement which updated the market on the possible major transaction relating to the possible spin-off and separate listing of BFIH and reference was made to the Company's announcement dated 20 October 2022 and the Company's 2022 annual report as issued and published on 13 April 2023. BFIH received final observations from the Securities and Exchange Board of India ("SEBI") on 10 June 2022, which meant that BFIH could file a red herring prospectus with SEBI and such other authorities as may be required and subsequently launched the proposed spin-off. In view of the market conditions since the date of the 20 October 2022 announcement, BFIH decided to further delay the timetable for its proposed spin-off, which accordingly would not be open for subscription by 9 June 2023, being the last date on which the proposed spin-off could be open for subscription according to the final observations received from SEBI. The Company still considers that the Proposed Spin-off (if it proceeds) will be commercially beneficial to the Company and the Company intends to continue to pursue the Proposed Spin-off when market conditions improve. Shareholders and potential investors of the Company should note that the proposed spin-off is subject to, among other things, applicable laws and regulations, market conditions and other factors and accordingly, there is no assurance that the proposed spin-off will take place or as to when it may take place. Further announcement(s) will be made by the Company in respect of the proposed spin-off as and when appropriate.

(b) Vietnam Operation

Vietnam is one of the most promising land for the next industrial boom and has been one of the world's fastest growing emerging markets in the past decade, which is boosted by strong foreign direct investment inflows into its

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

(I) Overseas Operation in Asia *(Continued)*

(b) Vietnam Operation (Continued)

manufacturing sector. Encouraging foreign investment is a major policy of the Government of Vietnam and rapid growth of manufacturing exports and large new inflows of foreign direct investment have been important growth drivers for Vietnam. The outstanding feature that helps Vietnam to attract foreign investment is stable politics and social security. Vietnam has a favourable geographical position for trade with the world, being both a regional connection center and a gateway to penetrate economies in the western region of the Indochinese Peninsula. With a population of almost 100 million people, Vietnam is a low-cost manufacturer with an abundant supply of qualified workforce with very competitive labour costs, making it an attractive hub for production. Many manufacturers in the global supply chain of major firms are gradually focusing on Vietnam and the demand for skilled labour keeps increasing. In addition, with 12 new free trade agreements, and Vietnam's accession to the ASEAN (Association of Southeast Asian Nations), Economic Community (AEC), it is a good opportunity to connect Vietnam with the region's market of more than 600 million people and world market. Vietnam's institutions, laws have been gradually improved in association with integration, not only creating good conditions for investors to operate in the long-term, but also helping businesses participate in supply chains and favourable global value. Poor global economy and Ukraine-Russia war and high inflation have affected manufacturing sector of Vietnam, especially in first half of 2023, many companies faced difficulties and had to cut headcounts. Although average inflation rate of the first four months of 2023 increased 4.9% compared to the same period of last year, labour rate did not change significantly.

There is a growing trend of electronics manufacturing migrating into Vietnam. This brings ample opportunities to our Vietnam site Fushan Technology (Vietnam) Limited Liability Company (a subsidiary of the Company, incorporated in Vietnam) ("Fushan") to diversify its business as more and more customers are approaching Fushan with wide a range of products of different categories, from home appliances, feature phones and smart phones, car accessories, ICT (Information and Communications Technology), EV projects, tablets, etc. The business diversification route of Fushan started in early 2019, from manufacturing traditional mobile phones to more complicated smartphones, smart speakers and IoT modules. For further diversification and utilising the new opportunities, Fushan expanded its business licenses, acquired relevant processing certifications and placed further investment on training enhance and diversify the skills of its existing experienced workforce to ensure that Fushan can meet the

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

(I) Overseas Operation in Asia *(Continued)*

(b) Vietnam Operation (Continued)

product manufacturing and customer requirements. The factory also aims for further diversification of customer focus and operation efficiency elevation to increase its competitiveness to the next level. In 2022, Fushan started its own sales operation to capture local and international business opportunities and the factory has succeeded in receiving great and promising responses. Fushan is bravely taking this one-of-a-kind opportunity to establish another milestone, ready to face any adverse challenges for business growth in the future.

Up to this day, the continued tightening of monetary policies in most countries has had a significant impact on global businesses, economies, investments, and consumer activities. This has led to increased risks in the banking system, as well as in public and corporate debt. The Chinese economy is experiencing a slow recovery with numerous uncertainties. Moreover, high inflation rates in certain import markets continue to affect Vietnam's exports. In the first half of 2023, the import and export sectors experienced double-digit declines led Vietnam's economic growth only reached 3.72%, falling below expectations. To achieve Vietnam's self-set target of 6.5% annual economic growth, the Vietnamese Government is putting the effort of the resilience and self-reliance of the economy. Macroeconomic policies aim to strike a balance between supporting the recovery and providing targeted assistance to vulnerable sections of the economy.

(II) Diversification

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. At the end of December 2021, the Mobile Drive Group ("Mobile Drive") previously wholly-owned by the Group has become 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 leveraged 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. With that, Mobile Drive's respective financial results, assets and liabilities have no longer been consolidated into the Group's financial statements and the share of profits/losses has been accounted

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

(II) Diversification *(Continued)*

for by equity method in the Group's consolidated financial statements. The Group has become the strongest anchor partner for the joint venture to provide all the supports from the hardware manufacturing side. In 2021, Mobile Drive has received the highest level of ISO 26262 certification, a recognition of unsurpassed R&D capabilities, marking a significant milestone for the company. Strictly following the ISO 26262 specifications, Mobile Drive continues providing high-quality, end-to-end Smart Cockpit and Advanced Driver Assistance Systems (ADAS) solutions with the highest functional safety and reliability to its customers. In late 2022, Mobile Drive's ADAS products have been installed in LUXGEN's flagship SUV series and has received tremendous positive responses from consumers. With the exceptional ability to comprehend the complexities of road conditions, Mobile Drive's ADAS delivered a safer and smoother driving experience to the driver and passengers. The Group is currently working on restructuring part of capacities to obtain more automotive functional safety certifications. Through activating and optimising the current manufacturing capacity, the Group does not need to make heavy capital investment but develops the automotive products as customers' requirements at the same time. The Group utilised the past experience in information and communications technology industry and focused on automobile communication parts, mechanical parts, components and PCBA. Most importantly, the Group's parent company, Hon Hai, would see the Group as one of its major suppliers and bring more collaboration opportunities through its car assembly business.

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 after market services provide comprehensive capabilities of return management and services and product repair/refurbish solutions in mobile device and smart consumer electronics devices. The service centers and hubs 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 post-pandemic difficult times such as the current high inflation challenges and potential global economy slowdown. The extensive global expertise provided a solid foundation for serving existing and potential clients regardless of national boundaries.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

Major Customers

The Group's major customers include reputational brands, which provide creditable products and have already acquired a substantial market share in their market of expertise. The Group's strategy has been establishing and maintaining long-term business relationships with leading companies with size and growth characteristics and seek to expand these relationships to include additional product lines and services, continuously develop and penetrate Chinese and overseas and international brand customers, put efforts to grow and diversify its lineup, and continue to expand its production capacity in India and Vietnam in order to meet the needs of customers to develop markets overseas and we have been successful to capitalise on the growth of domestic market in these countries and have continued to actively develop new customers of different industries in India and diversify both customer and product base. However, the Group's customers continued to face several unavoidable macroeconomic problems inclusive of Ukraine-Russia warfare which disturbed the world's supply chain and the surging inflation rate across all countries together with quantitative tightening policy have pushed up the risk of economic recession in the globe. On the demand side, under the difficult economic situation and fears of an economic slowdown, customer preference has been changed to saving more money to support the growing living cost; in other words, the decline in demand in durable goods including consumer electronics in 2023 continues to be the most impactful reason to worsen the Group's customers' business performance and the competition pressure continues as the market slows down and most channels are still filled with inventory. Peers have to fight for the remaining very limited demands if existing inventory cannot cover and this is why we are pessimistic for 2023 demand. The Group relies on a relatively small number of customers for a substantial portion of our sales, and the performance of our customers in the end markets and their outsourcing strategies could affect/reduce our shipment performance directly.

To reduce concentration risk, new customer development is crucial to the Group and the Group focused on expanding its customer portfolio and adopted a proactive and aggressive business strategy and established a dedicated business development team to identify and develop relationships with new customers that meet the Group's targeted profile, which includes good market growth potential, the need for OEM/ODM services or turnkey manufacturing solutions on a global basis, viability, financial stability and long-term relationship stability can drive expansion into new markets and seize growth opportunities and reduce concentration risks. But it is a fact it is growingly difficult to develop new customers of large or significant size and the time needed for new customer development can be very long and this is why the customer portfolio of the Group includes some small customers and the Group has to put tremendous effort and resources to expand overseas and there have been some successes.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

Major Customers *(Continued)*

Major customers include:

- (i) The Group's key Chinese customer initially focused on its domestic market, capital, technical and know-how advances. But in these years, the customer has shifted focus to global expansion and made extremely success in different countries and markets (like India and other developing countries especially Central and Eastern Europe and Southern America). As the macroeconomic challenges continue to take place around the world, this customer has adjusted its 2023 corporate strategies to focus on operation optimisation, future business development such as EV and emphasis not only on the scale but also the profitability. According to IDC report, 2023 first quarter worldwide smartphone shipments declined 14.6% YoY (year-on-year) and the biggest market China, faced 12% drop as consumers were spending on travel and entertainment over buying a new smartphone after China's reopening. The piled-up inventory since the second quarter of last year and the lukewarm demand were the main reasons that smartphone vendors were hesitate to ramp up and waited for a clear sign of recovery before putting more effort into pumping up the sales. Although this customer faced the worst decline in term of YoY shipments in the first quarter 2023 among the top five global smartphone vendors, it still maintains the third position in global market and its overall smartphone ASP (Average Selling Price) increased 2.2% QoQ (quarter-on-quarter) and 18% YoY in China as the proof of the preimmunisation strategy. For the second largest smartphone market, India, this customer's once leading market position slipped to fourth in the first quarter 2023 due to shipments to online channels dropped significantly and the regulatory pressure from the Indian Government has not eased.
- (ii) An established U.S.-based Internet customer is one of the major customers of the Group. Along with a long history of cooperation, the Group provides a throughout of engineering and production services aiming at delivering superior, reliable, and trustworthy premium smartphones to meet customer's demand. In order to differentiate ourselves from others, the Group works with this customer from the NPI (New Program Introduction) stage and be able to ramp in a timely manner to meet the customer's time to market and time to volume strategies. We keep developing depth of automation robot software, robot central control system and AI inspection algorithm to reduce labour amount dependency and manual in-consistency, real-time big data analysis and visualisation tool to assist yield improvement to support the customer in every production aspect. We also work with this customer by offering geographical competitive advantages and management excellence to mitigate the concentration risk on certain region/country. Despite the macroeconomic downturn, this customer continues to put its effort on equipping more and more advance AI technologies on its

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

Major Customers *(Continued)*

device. The prestige brand image, trustworthy quality and innovated technologies are the unique characteristics of this customer, and those elements will help our customer to navigate through this sudden economic slowdown and gain the applicable market share in the long run.

- (iii) Ensky Technology Pte. Ltd. (“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 for eReaders and voice interaction products as one of Ensky’s U.S. customers has been growing very fast and dominant worldwide. The Group has been manufacturing consumer electronic products such as eReaders and tablets, and voice interaction products for a sustained period of time for Ensky and the Group is now its strategic supplier due to the Group’s strong engineering and global operation and manufacturing capabilities, which can cope with customer global diversification development and do high end and more complicated programs, and satisfy 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. But there are many challenges as the macroeconomic environment is not good and market research indicates that consumers now allocate money to leisure and meals rather than consumer electronics. In addition, smart speakers now become growingly saturated in the U.S. market. 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. Due to the change of its business model, Hon Hai has gradually changed the buying entity from Ensky to other companies in Hon Hai Technology Group since 2022.
- (iv) 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 appliances, displays and other IoT devices. The current selling markets of this customer include Japan, Taiwan, Indonesia and U.S., with close to 98% of total shipments going to its home market, Japan. Starting from Japan telecommunications carriers adjusting the order volume in anticipation of the recent demand decline, the Japan mobile market has seen lots of turbulences. On 15 May 2023, Japanese electronics company Kyocera has announced its officially leaving the consumer smartphone business due to decreased demand for its products. “We can no longer find marketability for the general market”, Kyocera President Hideo Tanimoto said. Less than a few weeks after the announcement, the fifth ranking vendor, FCNT, three successors of Fujitsu Ltd.’s mobile phone business, filed for bankruptcy protection with

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

Major Customers *(Continued)*

Tokyo District Court under the civil rehabilitation law on 30 May 2023, leaving debts of 143.1 billion yen in total due to depreciation of yen and severe competition. On the other hand, Sharp continues to explore the non-mobile phone business and has offered other electronic devices such as MiFi routers and tablets with the help of the Group's R&D resources and capabilities.

- (v) A new India customer becomes a major customer in the first half of 2023. It was set up in 2006 and engaged in the business of supplying telecommunication equipment and providing services in the nature of installation, commissioning, erection and maintenance thereof and managing telecommunications network of service providers and its business in India is growing rapidly. The Group provides system assembly manufacturing services for hardware like base band unit, remote radio head and adaptive/active antenna to this customer.
- (vi) HMD is an independent Finnish company. The company is the only major European smartphone provider distributing Nokia phones, tablets, and accessories to the world. In addition, HMD offers a suite of solutions for enterprise customers. The company is driven by the needs of its customers and puts sustainability, longevity, security, durability, and affordability at the core of everything it does. This is in line with its mission: connecting the world without costing the earth. Economic recession continues to be the biggest macro risk affecting the mobile industry in 2023, with macro conditions improving slightly but worse than initially forecast. Consumers are highly cautious with spending in lower disposable income environments, impacting low price point/pre-paid markets Vs mid and high price-point markets which are more resilient. Low consumer confidence continues to delay smart phones market recovery, which is leading to further market size forecast downwards, which in turn leads to caution from OEMs with marketing and channel investments. Inflation is not expected to return to target before 2025. This has been a key factor in driving market size down, especially in emerging markets. The strengthening USD due to FED rate increase is impacting many of HMD's key emerging markets. For example, Egypt, Pakistan and Nigeria continue to struggle with USD availability and currencies depreciated between 20%–80% in the last one year. Ukraine and Russia were not very significant markets for HMD, however the impact of the war on the world economy and inflation is substantial. With a steadfast commitment to delivering quality, affordable phones for over six years, HMD is well positioned to continue to deliver a proposition that puts the customer at the heart of everything they do. Leveraging extensive worldwide distribution and operational networks, secure in-house software and R&D capabilities, a comprehensive enterprise solutions portfolio, scalable e-commerce platform and working with a team of seasoned professionals, HMD is poised to deliver innovative products that endure, reducing electronic waste and making a positive impact on the planet.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

Major Customers *(Continued)*

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 in Hon Hai Technology Group accounted for approximately 0.13% and 9.82% 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 29.24% 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 88.54% of the Group's total revenue, four of them have had long-term and well-established relationships with the Group for more than five years whilst other one have been the Group's customers for around two years. These major customers are not required to commit to a certain minimum purchase value or volume from the Group over a period and we bid on a program-by-program basis and typically receive customer purchase orders for specific quantities and timing of products. Our customer-focused factories are flexible and can be reconfigured as needed to meet customer-specific product requirements and fluctuations in volumes. But of course, volatility in demand will affect our material requirement planning and production planning and asset utilisation. Demand visibility is the ability to see undistorted and accurate demand within the timeframe necessary to react to it. The more visible is the demand, the greater the likelihood of reliable demand forecast. Better visibility into supply chains translates to fewer disruptions, increased customer satisfaction and lower costs. A majority of supply agreements entered into with customers require the customer to purchase unused inventory that we have purchased to fulfill the forecasted manufacturing demand committed by customers. Some of these agreements require us to provide specific price reductions to our customers over the term of the contracts. In the current dynamic and highly competitive handset industry with prolonged replacement time, 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 in any region 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. In addition, if one or more of our major customers were to become insolvent or otherwise become unable to pay us on a timely basis, or at all, our financial condition could be jeopardised. The Group's reliance on major customers means that the Group's performance is directly affected by the performance and competitiveness and development of these customers and their outsourcing and offshoring or onshoring strategy in a challenging handset industry with a lot of OEM and ODM competitors and the Group has to keep monitoring the current economic environment and market landscape and the change of market trend and end customer behavior and the potential impacts on both the general economy and consumption power and preferences and

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

Major Customers *(Continued)*

credit position of customers the Group serves, as well as end markets and individual market segment of the Group. The Group continues to closely manage and control expenses and headcount and capital resources to remain lean and agile and maximise preparedness and the ability to respond in a quick manner as external circumstances and uncontrollable and unpredictable geo-political situation change. But as reiterated, idle costs are high.

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 expected credit loss allowance made for the current period was US\$50.7 million (when compared to the expected credit loss allowance of US\$14.5 million made for the same period in 2022). In 2022, the pandemic stalled the economic engine worldwide, and the repercussions of this were not limited to any one industry. Those unfavourable factors including the hit of slow-moving global economy, high inflation and interest rates and protracted Ukraine warfare and cost-of-living crisis and keen competition and drop of demand and poor business performance, continued to put a strain on the solvency of customers and companies in 2023 and there was a drop of demand for the Group's products and services from these customers. Some of the Group's customers including major customer like HMD, which distributes phones to Europe and Africa experienced financial distress and tight cash flow and the Group experienced huge difficulties in recovering trade receivables from HMD and the overdue amount of trade receivables and collection risk and default risk increased dramatically to an extremely high level. To control the credit risk, in the second half of 2022, the Company adopted risk minimisation actions and capped trade receivable balance with HMD and aligned shipment quantities with payment statuses and shipment quantity for the current ongoing feature phone projects was limited to the corresponding amount of payments made by HMD so that outstanding trade receivable did not exceed a preset cap amount. HMD's raising of funds was not successful in 2022 and the cash position continued to be bad in 2023 and the Company closely monitored the level of outstanding trade receivable, and evaluated whether HMD can continue as a going concern and risk to the collection of overdue trade receivables and associated default risk. As at 30 June 2023, the management assessed the expected credit loss allowance of trade receivable due from HMD with a gross carrying amount of US\$218.4 million individually. Management of the Company confirmed that, due to deterioration of HMD's financial performance, there was a significant increase in credit risk of the trade receivables due from HMD and hence ultimately HMD might not be able to meet obligations as they came due based on what's known and knowable. Thus, management appointed an independent external valuer to assist in the estimation of the expected credit loss allowance of the trade receivable by determining an appropriate probability of default rate, estimated loss given default rate and forward looking adjustments. Based on the result of the assessment for HMD, a lifetime expected credit loss (not credit-impaired) of US\$54.6 million was recognised

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

Major Customers *(Continued)*

during the period ended 30 June 2023 (first half of 2022: US\$12.7 million and second half of 2022: US\$64.7 million), and it is expected that further expected credit loss allowance of huge amount will be provided in the second half of 2023 since recovery rate is assumed to be lower given that financial position of HMD will remain at the similar poor level in the second half of 2023. Pursuant to International Financial Reporting Standard (“IFRS”) 9, the Group uses provision matrix to calculate expected credit loss allowances for trade receivables which are not credit-impaired or with increasing credit risk. The provision matrix is based on debtor’s aging of groups of various debtors that have similar loss patterns. The provision rate is based on the Group’s historical observed default rates taking into consideration of forward-looking information that is reasonable and supportable and available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In light of high uncertainties of global economy and handset market and heightened geo-political tension, the Group reassessed the expected credit loss allowances by increasing the expected credit loss percentage for overdue trade receivables during the current period. The Group also has some small customers and the exposure to financially troubled customers or suppliers may adversely affect our financial results. The Company will continue to closely monitor the situation and factors affecting cash position and payment and credit worthiness of customers and if needed, change the credit limit or credit days and/or control the volume of business with these customers and take necessary collection actions and credit control actions (like shipment block) according to the Company’s policy and make adequate expected credit loss allowances arising from trade receivables according to requirements of relevant accounting standards and outlook of credit position of the customers. Management will regularly review to ensure that relevant information about specific debtors is updated so that management can evaluate if adequate impairment allowance has been provided on those credit-impaired debtors which are evident to management that the debtors are in financial difficulty or trouble. Furthermore, we adjusted our supply chain management planning by setting high priority on shipping out slow moving components projects first to avoiding excess inventory accumulation and continued to reduce excess open purchase order and component inventory amount.

On top of mobile devices manufacturing business, the Group also has a strong after market Services including reverse logistics, repair/refurbish services and manufacturing services locate in North America region which offer integrated solutions providing American 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 under the circumstance of global supply chain restructure. The services include after-market management, repair/refurbish services, product asset-recovery, excess inventory on-line sales service, integrated regional manufacturing, packaging, and fulfillment. Forward/reverse logistics and manufacturing expertise are provided by the Group to multiple product lines

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Customers *(Continued)*

Major Customers *(Continued)*

such as mobile phones, consumer/industrial drones, drone devices, smart home devices, set-top boxes, IoT products, medical product, and automotive 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 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 HUB location advantage in Dallas Texas for logistic services and proximity location advantage of boarder Mexico factory for manufacturing strategies under global supply chain restructure; (3) robust quality system and crucial certifications, such as ISO 13485 for medical and IATF 16949 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 global supply chain supports from FIH global resources; and (6) E2E (End-to-End), complete after-market service solutions and online-offline operation integrations, and customised service-models.

Key Relationships with Suppliers

Supply chain management:

Supply chain performance is always a key indicator in determining operation execution excellence within the Group. To address time-to-market, volume-to-market and time-to-volume requirements in this business, performance of manufacturing operation depends on quality, in-time availability and cost of components and other raw materials, and highly efficient management to inventory, and supply instability will affect our production schedule and then shipment to customers. In particular, the impact of a delay or interruption in supply from a single-sourced component supplier can be catastrophic and we may be required to source these items from other third parties on a delayed basis or on less favourable terms. The Group sources components and other materials required for conducting businesses from Hon Hai and 1,200 reputable and qualified suppliers around the world. The Group has maintained stable business relationships over a long history with almost all of them. Maintaining on-time delivery of quality material at best-in-class competitive pricing and, at the same time, avoiding being restrained by certain key supply sources has been a constant challenge to procurement team of the Group. In addition to managing cost of top critical material, the Group will from time to time take necessary actions in maintaining a suitable inventory, open purchase order and working capital dynamic. From time to time, customers do not always accept price increases we ask for in case of some component price increases. And adequate cash reserve is always kept warranting sustainability of its operations. Considering unprecedented challenges presented by unbounded circumstances over the past couple years, the rise and fall of business has practically been largely dictated by supply chain

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Suppliers *(Continued)*

performance, by its deliverables. Geopolitical uncertainties inclusive U.S.-China tension and Russia-Ukraine conflict, inflation and tight monetary policy among major economies will dictate our business in 2023. Vendors delivering basic materials and components including chipsets, memory, electronic parts, display modules, camera modules, batteries, connectors, enclosures, and packaging material together make up the supply partners of the Group. They are selected through a clear set of requirements developed over a long supply management history. It contains specifically technical requirements, quality and reliability standard, price competitiveness, technical competence, innovation and engineering capacity, logistics requirement, service assessment, commercial terms, customers' requirement, capacity, peer recognition in the industry and financial strength. Vendors are then evaluated and admitted through qualification processes defined within the Group and supply availability and price fluctuations of materials and components are constantly being studied and followed. The risk of supply instability due to excessive concentration of purchasing sources remains low. And supplier performance measurement (TQSCE, i.e Technology, Quality, Supply, Cost and ESG) is continuously being taken and monitored by the operation on a regular basis.

Components may not always be readily available at times of supply in constraint. The Group, from time to time, may not be able to continually obtain sufficient supply in meeting production schedules and it is one of the reasons why it is always challenging to publish order books and shipment volume forecast. Purchases made to top five suppliers in spend by the Group accounted for approximately 49.1% of total purchases made in the current period. Whilst the Group could have worked with many accessible sources in the market, over the years the Group has continually consolidated its spend to limited number of major suppliers to continually enjoy ease of procurement processing, supply continuity and favourable commercial terms (especially in pricing). All top five suppliers have had a long lasting and well-developed business partnership with the Group over the last five years or longer. They are not bounded by contract, nor are asked to keep manufacturing capacity, or, to produce and supply or guarantee minimum supply to the Group. At such, liability exposure is considered well administered for the Group. Given best-in class pricing is secured through purchase consolidation with handful of key suppliers, safety buffer planned and built on top of demand keeps supply disruption risk in the form of supply delay or interruption to ODM business reasonably contained. Customers are informed and are aware of such continuing challenge. Information is always adequately shared to customers on a timely manner. Contingency is built in, it can be triggered off when situation arises. Additionally, good number of alternative sources available in the market are always kept as fallback to work with at all times. Except chipset, memory and certain key components, the Group does not anticipate to experience unforeseen market fluctuations such as significant material cost increase or supply delay should the Group decide so to engage with a new supply source. Its capacity in practicing best in class material pricing in the industry clearly displays procurement proficiency and commercial strength of the Group, it is considered as core competence built upon benefits leveraged through scale of its operations, bulk volume in purchase, and continuous close

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Suppliers *(Continued)*

participation and networking with the market. One of the top five suppliers in spend to the Group is 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 9.7% of the Group's total purchases in the current period.

Procurement team may employ basic tools and appropriate tactics in containing demand/supply dynamics from time to time. Pricing and supply requirements are communicated and negotiated with designated sources on a quarterly basis. Session for next coming quarter usually starts from third week entering into a new quarter and lasts till two weeks before quarter ends, i.e. when experiencing supply instability/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 at very short notice, and those shall be resolved with intense senior management level 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 continually offered to suppliers on weekly basis, longer term numbers are shared through sourcing team. Planning and visibility are built on top of demand forecasting confirmation received from suppliers. Communication and negotiation taking place in each quarter are tools in determining pricing and supply in future quarters, bargain/trade-off is being made well before actual delivery confirm is given. Preferential supply strategy, in TQSC, is always the guide in decision making. Demand and supply dynamics has shifted since late 2022, high level tactics can be adjusted to, (1) leverage preferential sources, balance demand/supply; (2) explore additional options if supply fails to meet demand in time; (3) drive best market pricing by commodity; (4) request reasonable order lead time, maintain minimum order coverage; and (5) seek supply from open market when necessary.

Regardless market dynamics, material availability in a full square kit is fundamentally essential in manufacturing, for which functionality or dollar value of the component will make no difference to production operation. If a product can be manufactured into one and shipped in time is all that matters. No doubt, keeping a demand supply balance with agility is critically important to our business success.

For details, please refer to the "The Group's Value Chain" section of the Company's separate 2022 environmental, social and governance report as issued and published on 13 April 2023.

In response to potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has worked out and followed its business plan with goal to expand customer base and product categories and its supply mix, effective systems in internal control and ERM are implemented and maintained to assess and contain such risks. For details,

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Suppliers *(Continued)*

please refer to the “Accountability and Audit” section of the Company’s 2022 corporate governance report, which forms part of the annual report of the Company as issued and published on 13 April 2023. In order to cope with mounting geo-political risk, global economy slowdown, weak demand, inflation risk and to minimise impact on operations, the Group continually examines market situation and general economy and material supply and market price trends and maintains close association and communication with customers, suppliers and logistic service companies through flexible and efficient procurement and sales strategies.

Material supply and price:

Adjustment cycle continues on into 2023. Restoring inventory back to healthy level has been and still is top priority in business. Consumer price increase induced by inflation finally began to slow down since the first quarter after continuous interest rise instigated by most economies around the globe over the last 12 months. Consumer pricing nonetheless remains to be high when measured against pre-COVID period. It seems interest will be kept high for a longer period to come in order to complete the required adjustment cycle. Market is anticipating tight monetary policy by major economies till end of 2023 and it could very likely last longer. Continuing Russia-Ukraine conflict and U.S.-China tension remain to be geopolitical turmoil staged at global level. Energy supply is no longer a concern in Europe. Warm weather in last winter helped Europe nearly escaped from a total collapse fueled by Russia-Ukraine conflict. Still energy cost stays high. While speculating about future consequences at the time, to everyone’s surprise, China authority took the unexpected late last year. All COVID-19 control requirements, restrictions were basically abolished overnight in December 2022. Widespread infection to the mass population followed over a three week period. And when it was over, pandemic came to an end in China. China had finally moved forward on its way to claim back a normal life. Supply constraint which troubled entire electronics industry over the last three years had started to dissipate since the third quarter 2022. It had drastically turned into over-supply toward end of 2022. Demand stayed to be illusive and remained to be highly volatile with very limited forward visibility.

No real supply constraint is experienced till date in 2023. Irrational and unrealistic supply limitations are no longer in existence. Demand is expected to be filled with supply after terms are suitably negotiated and agreed upon. Mobile handset shipment in this year (2023) has been projected to be lower than shipment from previous year (2022, could be about 3%–5% lower). Adjustment in handset industry has been lagging, behind most other consumer electronics businesses. Consumer spending has been weak since the second half of 2022. Worries about economy’s future continue to grow. Post-COVID market in China did show resilient recovery during March 2023, yet momentum failed to persist, it lasted only for the month. China export continued to be weak given fragile global economy and as result of relocating manufacturing capacity outside of China. China domestic market has been an over-

BUSINESS REVIEW *(Continued)*

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supply market. Big capacity has been built and is available for market demand, yet market has been struggling in making adjustment and identifying new opportunity for growth. U.S. market has shown better resilience in the past months. Inventory has come down within a high consumer pricing environment. Living cost staying at high level has driven priority change to spending, to average family expenditure, which in turn has slowed down non-essential spending to products like mobile handset. It is valid and happening in all markets, structure-wise, market decline is more severe in mid and low tiers, non-essential spending has been either cut sharply or postponed.

China leading brands suffered more as price-conscious consumers backed off from spending in mid and low tiers product segments that have been dominated by them. While in flagship and high tier products, players strong in these tiers seem to be able to hold up better as simply spending has less been about pricing in these segments. Having said that, big picture remains. Skyrocketing inflation and high energy costs washed out demand in Europe. U.S. market continued to struggle with excessive channel inventory and a series of aggressive monetary adjustments. China has been trying hard to adjust to a post-COVID era, in an over-supply domestic market and find and adjust to new growth opportunity. India has shown strength relatively in recent months, been sustaining solid recovery. Certain brands and products showed good resilience amid market negativities. When COVID-19 is no longer in the scene, when decades-high inflation is being restrained, when geopolitical conflict continues to escalate, challenge to all is declining demand. Market has been reacting and adjusting in the past months and will continue to do so in the second half of 2023.

In the last six months, there are sectors where dwindling demand have prompted decisions to limit supply in order to sustain the market, good examples are main chipset, memory and LCD cell. And, at the same time, there are certain semiconductor sectors in automotive application, in AI server market, supply in those applications remains tight, lead time keeps long, pricing holds strong. Component pricing is not dictated entirely by demand and supply dynamics. In contrast to a weak market demand, leading semiconductor makers raised their selling prices from beginning of 2023 up to 10% or more by claims on higher cost. EE components inclusive of passive parts came lower around 2% to 3%. Memory pricing is always extremely sensitive, is always subject to change from day to day. Memory pricing came to pre-COVID level, to the point where resorted to sustaining market through limiting production output. Custom-made components were more vulnerable and were tied to specific product demand, in which case, on a broader scale, display pricing came 3% lower; battery went down for more than 1%, even sub-tier material began to rise again. Camera module went down 5%, charger was 6% lower.

BUSINESS REVIEW *(Continued)*

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Key Relationships with Suppliers *(Continued)*

Quick, high and longer interest rate hike and fast pace tapering from the second quarter of 2022 till now are medications in super heavy dosage aiming for a quick cure to runaway inflation. Target was to rapidly drive down spending and investment. Consequently, market demand would come down as a result. Finally there is positive signal showing inflation could have been contained since the first quarter 2023. However, interest rates may continue to stay high for many months to come, i.e., not expecting a demand turnaround any time soon. Moving forward into the second half of 2023, no supply challenge is expected, pricing is expected to come down in most commodities as clearing channel inventory continues; inflation and tight monetary policy in major economies, geopolitical conflict inclusive Russia-Ukraine conflict and continuing U.S.-China tension are apparent uncertainties. Though market visibility is limited, challenge won't be about supply or pricing. Worry will have to be if market can hold up, if recession may escalate, how hard and how long. How soon can excessive inventory in channel be moved and return back to healthy level. The Group continues to commit its efforts to try to overcome business difficulties and put in efforts to negotiate, discuss and arrange with its customers, vendors, suppliers and logistics partners to share risk, champion mutual benefits and foster long-term relationship among the parties in difficult times. In addition, there are also other challenging conditions that the Group has faced since late 2017 have continued into 2023.

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 professionals and experts. Therefore, the Group pays attention to keep enhancing the 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,

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Employees *(Continued)*

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 emphasizes 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 on 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.

Fushan is being recognised as one of the best working environment through labour market (to receive Award as "Corporate Excellence" category of the Asia Pacific Enterprise Awards (APEA) in 2022. We care for our employees with five main core values such as people, integrity, efficiency, innovation, and winning by creating a good working atmosphere that people are respecting each other and to be recognised and trusted in their job assignment. They have a chance to make creativeness in their job and innovation to reduce the cost and increase work efficiency and better quality result and also create equal chance for everyone. The Company provides clear procedure and proceeds to implement promotion program to show our integrity in people development management and also with philosophy win-win relationship as one team, one goal and customer-oriented. Besides, the Company is always showing our caring to employees working life through benefit in kinds such as premium insurance to take care individual and their own family; team building program for indirect labour (IDL) to be organised twice per year to help employees to refresh their mind after working time dedicated to their work and encourage our employees. From January 2023 up till now, total 65% employees already attended IDL team building with high motivation and excited mind to refresh and prepare for concentrating with new task and new projects ahead. The bi-weekly "Skip Level Coffee" to conduct 9 batches with 54 issues — closed 74% and opened 26%" and "shop-floor tour program to conduct 34 tours with 227 issues and closed 97%, 3% opened"remains effective in listening to employees' concerns and difficulties in their

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Employees *(Continued)*

daily work. Through these programs we recognised that 2023 merit increased: employees felt satisfied with company policy and really appreciated company support and contribution for employees.

Regarding to Fushan Training program: we are continuing with our strategy of “customised training courses by Business requirements and self-learning culture mindset’ and maintaining sustainability training program” such as Customising soft skill training courses based on business need (to create the talent pools for replacement); Maintaining mandatory training programs required by Local law, Head Quarter, and Customers; Continually promoting self-learning agility culture in our Company. For Talent Pipelines Creation, Fushan had a version up (from 1-month training conducted by department into 2-month training conducted by department with much more taking care, coaching, and mentoring from department to support for our new pipeline talent pools to have good working concept, well equipped for new joiners to be well integrated to the working environment. Beside that we continue to attract young talents from top tier Engineering University like Hanoi University of Sciences and Technology(HUST) to join our Fresh program in the third week of June 2023. First half of 2023 we have no difficulties in direct labour (DL) recruitment activities due to the low manpower demand from local markets and economic situation ramped down accordingly. For IDL recruitment, we had no pressure in first Quarter Recruitment (nearly 100% achievement of fill rate for 100 around positions) but the pressure is increasingly from second quarter 2023 due to mass production ramp up.

In order to better support organisational success, we are in progress to systemise human resources daily operation as much as possible and successfully upgrade payroll and performance appraisal systems. We will deploy more digitalisation like e-recruiting and exit management system in 2023.

In India, the Talent Landscape has been changing rapidly. Despite fierce competition to attract and retain employees at a time when limited resources with experience are available, we have ensured 100% customer demand fulfillment in the midst where the DL is impacted by seasons, festivals, and by other factors (exams, marriage). India sites have reached 10,000 DLs in our AP and TN sites. Second quarter witnessed attrition due to volume drop and college admissions in July was the main reason for employees to leave for higher studies. Replacement DLs were given, no impact to business as it was a predicted attrition. (State wise/composition) Local 66% and other states 33% were maintained to ensure cost optimisation and overall operational efficiency. For the first time in the Group, we have recruited male DL and increased recruitment to cater to a Networking customer. Attrition is well within the industry standards of 15% to 18%, better than our competitors. In addition, ensured stability of 100% workforce after Stock Audit (3 days per quarter). 98% of the DL grievances were resolved within 4 days. Initiatives taken to improve DL dorm occupancy.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

Key Relationships with Employees *(Continued)*

Effective utilisation of dorm occupancy maintained to ensure cost optimisation without lowering the living standards in the dorms at the same time.

In the last six months, Human Resources has collaborated with the business for driving business strategy and growth. India sites has stabilised IDL staff hiring for core operation roles on time, 75% of junior level positions through Walk-ins, 25% of middle level positions through Job portals, referrals and manpower consultants, screening to conversion rate remain at 4 weeks lead time (average) to hire junior level positions and 4 to 6 weeks lead time to hire middle level positions. To address continuous attrition on junior positions, we strived to upkeep a balance pool by hiring Interns, both with Engineering and Diploma qualifications to build pipeline and shorten notice period average time for on-boarding has been 16 days after offer acceptance. In order source talent differently through various channels we have strengthened cost effective sourcing channels by way of regular communication, job postings on social media and employee referrals. The onboard regular work force in both TN and AP lead-time reduced to 7 days on an average and fulfilled on time replacement of 80% operational roles at junior positions; New business positions by 20%.

In India, there is continuous War for Talent at junior positions, due to millennial disengagement and job-hopping. To mitigate this the learning and development teams along with the employee engagement teams have undertaken various initiatives Employee Engagement. These initiatives ensured, sustained staff Learning Hours. Feedback and Test Assessment always exceeded 95%, Managers Learning trend increased 15% to 20%. Involved DL and IDL staff in engagement activity during main regional festival Pongal in January covered 1,800 man-hours; Women's day on 8 March 2023 covered 8,100 man-hours. On the occasion of Diwali over 45 employees of BFIH, AP Campus decided to celebrate Diwali with a difference – bring smiles to 18 elderly living in Sai Seva Old age home, Sulerpetta, Andhra Pradesh site.

While the government push for vaccine mandates has been removed, we remain committed to having our workforce fully up to date with their COVID-19 boosters. India site ensures 100% compliance towards internal and external compliance audit and adheres to customer portfolio training requirements i.e., Values, Anti-corruption and POSH (Principles of Occupational Safety and Health). As part of our ongoing Corporate Social Responsibility (CSR) initiatives, we contributed some critical medical equipment to seven Primary Health Centers in the rural areas of North Tamil Nadu.

Over the past year, in view of the Group's changes in product portfolio and excess capacity, we have undertaken initiatives to restructure our business operations with the intention of diversification, improving utilisation and realising cost savings and remaining as an asset-light and lean group. These initiatives included the restructuring the underperforming parts of its manufacturing operations and disposing idle assets, moving production between facilities (new business in Vietnam and India), reducing the level of staff, realigning our business

BUSINESS REVIEW *(Continued)*

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processes and reorganising our management, largely to align our capacity and infrastructure with current and anticipated customer demand.

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 of 30 June 2023, the Group had a total of 42,575 (31 December 2022: 44,055) employees. Total staff costs incurred during the current period amounted to US\$132 million (US\$187 million for the first half of 2022 and US\$184 million for the second half of 2022), and the year-on-year decrease was mainly due to the optimisation and rightsizing of staff force according to business needs.

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 corporations. In a highly competitive global economy and as product development and manufacture are both complicated processes and require professionals and experts, retaining qualified and skilled key employees is essential for the sustainable competitive advantage. Offering competitive compensation and benefits, favourable 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 as actions for the Group to increase the employee loyalty

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

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and retention rate. In particular, further to the Company's circular as issued and published on 13 April 2023, the Company has adopted a new share scheme (the "New Share Scheme") and a new share option scheme (the "New Share Option Scheme") respectively on 19 May 2023 following the approval of its shareholders, pursuant to which (among other things) the board of directors of the Company (the "Board") (or its duly authorised officer(s) or delegate(s)) may offer share awards or share options (as the case may be) to the eligible employees of the Group upon and subject to the respective terms and conditions set out therein (for a summary of the principal terms of the New Share Scheme and the New Share Option Scheme respectively, please refer to the Company's circular as issued and published on 13 April 2023). Both the New Share Scheme and the New Share Option Scheme comply with the requirements of Chapter 17 of the Listing Rules. 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 Directors' Remuneration Policy of the Company as amended from time to time (for details, please refer to the "Remuneration Committee – Directors' Remuneration Policy" section of the Company's 2022 corporate governance report, forming part of the Company's 2022 annual report as issued and published on 13 April 2023) as well as the recommendations of the Company's remuneration committee.

For more details about the Group's key relationships with its employees, please refer to the "Human Capital – The Group's Greatest Asset" section of the Company's separate 2022 environmental, social and governance report as issued and published on 13 April 2023.

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 history, backgrounds, company goals, DNA, business and growth strategies, customers, organisation culture, leadership, shareholder structure, business models (like outsourcing or insourcing or co-sourcing or nearshoring) and life cycle, client profile and base and mix, revenue and product mix (casing versus system assembly and other non-handset businesses), specific operating processes, product and service strategy and differentiation and positioning and diversification, risk appetite, business segments, pricing strategy and policy, geographical footprint, government support, ESG compliance and promotion, tax incentives entitlement, competitive edges, core competencies, R&D capabilities, asset utilisation, cash flow and position, dividend policy, capital structure, cost structure, it may be difficult to make direct comparisons at consolidated group account level.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Financial Performance *(Continued)*

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 and quality of products, which include control of variable costs such as BOM cost, DL costs, variable manufacturing costs, overheads and yields, and efficiency which can improve the contribution margin to cover fixed overheads. If utilisation is low, there will be unabsorbed 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 sales management, capacity utilisation, supply chain and procurement management, efficiency optimisation, risk management, operation management, inventory control, productivity, quality control, yield control, direct cost control, manufacturing overheads control or a change in the pricing policies and activity level and overall cost competitiveness and market landscape.

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 measures how well a company does at turning revenue into profits and is often regarded as the ultimate metric of profitability — the “bottom line” — because it's the profit remaining after deducting all operating and non-operating costs, including taxes and 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 show how fast the company can grow in the long-term prospect.

Return on equity (ROE) is the ratio of net income against each unit of shareholder equity and indicates the capacity of a business to use shareholder's investments efficiently and measures a company's profitability and how much profit a company generates for its shareholders. In other words, management often utilises it to measure how effectively and efficiently a company is using the resources provided by its equity investors to create profits. The Return on Equity ratio not only provides a measure of an organisation's profitability, but also its efficiency. A high or improving ROE demonstrates to your shareholders that you are using their investments to grow its business.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales

In the first half of 2023, the Group recognised a consolidated revenue of US\$2,677 million, representing a decrease of US\$1,448 million or 35.1%, when compared to US\$4,125 million for the same period last year. In the second half of 2022, as capacity and production was ramped up, situation changed and pandemic-induced supply chain constraints pulling down on the market since 2021 eased and were no longer the most pressing issue as component orders were cut quickly and suppliers started to be concerned about oversupply and inventory accumulation and the industry shifted to a demand-constrained market and end customers became even more price sensitive. Because of the drop in demand, many handset brands faced inventory accumulation challenges and struggled to clear inventory since the third quarter of 2022. The year-on-year decline of global handset shipment statistics reflected weaker market demand on higher cost of living, deteriorating economy, a lengthier replacement cycle and a growing refurbished smartphone market. As the handset market now becomes demand-constrained, the Group adopted a proactive and aggressive business strategy, establishing a dedicated business development team to drive expansion into new markets and seize growth opportunities. In below “geographical segment” section, there are detailed explanations on the year-on-year change of sales of individual customer.

The year 2022 was a challenging year and China’s economy experienced large fluctuations. For almost three years, the Chinese Government persisted with rolling lockdowns and mass testing to stop COVID-19 from spreading. The continuous impacts from COVID-19 variants and the Chinese Government’s actions to stamp out the COVID-19 wreaked havoc on the supply chains and hammered consumer spending, and the rise in inflation caused the global economy to enter into a pronounced slowdown. The main hindrance to China’s economic growth in 2022 was unquestionably the stringent COVID-19 restrictions, which led to overall GDP growth slowing to 3%. The removal of these restrictions, therefore, removes the single largest obstacle to growth, and industry and society alike will benefit in the coming year as a result. In 2022, China’s GDP expanded at its slowest pace since the mid-1970s, bar the COVID-19-hit 2020 year. In 2023, despite of a lot of difficulties, there is no question that China’s economy is improving in a slow pace and on the path toward recovery following the lifting of COVID-19 restrictions. China’s reopening from COVID-19 restrictions will not only accelerate China’s economic recovery, but it will also boost global economic growth. Weakened demand and high inventory caused vendors to become more cautious and realign their focus on profitability and working capital control and cut back drastically orders for both feature phones and smartphones and the poor situation continued in 2023.

In the year of 2023, although the world is gradually recovering from the crisis of COVID-19, its impact on the business continues to persist and even expand. Customers, faced with supply chain disruptions such as IC shortages and inadequate transportation capacity during the previous COVID-19 period, significantly increased their order demands to secure larger quantities and increased their inventory levels to avoid stockout. This inflated and exaggerated

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales *(Continued)*

demand does not stem from genuine market demand growth. As the supply chain returned to normal, customers were faced with excessive inventory, resulting in a reduction, postponement, or even cancellation of new orders. In light of this challenge, the Group is actively monitoring market sales trends in real-time, closely communicating with customers to assess the confidence and accuracy of demand forecasts, shortening material procurement lead times, and ensuring prudent and timely inventory management to avoid excessive or premature stocking that may lead to idle resources and financial burden. In order to consume the excess inventory, customers have also started to cancel or postpone the new product Request for Proposal (RFP) processes. In response, the Group continues to actively participate in the new RFP proposals from existing customers and is also exploring opportunities to develop relationships with new customers and expand its product lines. In addition, the global economic challenges arising from high inflation and interest rates, depreciation in emerging market currencies and resulting fluctuation in consumer demand, resulting in severe economic instability, were more challenging to the Group's operations. Asia segment is the largest geographical segment of the Group. China's economy rebounded in 2023 shortly after the Chinese Government dismantled its heavy-handed COVID-19 controls in December 2022 and lifted businesses and consumers out of crippling pandemic disruptions. China's better-than-expected GDP growth in the first quarter was spearheaded by a sharp rebound in consumer spending, especially in services, non-durable goods and semi-durable goods. This rebound, however, seemed largely self-contained and some analysts believed the strong growth reported in the first quarter was the product of "backloading" of economic activity from the fourth quarter of 2022, which was weighed down by pandemic restrictions and then a chaotic reopening. Weak goods imports were evidence that the strong headline growth number did not translate into wider regional, and headwinds from a global slowdown point to a bumpy ride ahead. But the revival in growth of China is expected to buoy the global economy as the U.S. and European economies slow. More than a year-long sweeping streak of global monetary policy tightening to rein in red-hot inflation dented world economic growth, leaving many countries including China reliant on domestic demand to spur momentum. Vendors are passing on inflationary component costs to users which is dampening demand further. Heavy sales and promotions helped deplete existing inventory rather than drive shipment growth.

IDC Inc., projected the worldwide shipments of total devices (Personal Computer (PC)s, tablets and mobile phones) will decline 4.4% in 2023, to total 1.7 billion units. In 2022, the devices shipment market declined 11.9% and demand for digital devices quickly dwindled from the pandemic-induced boom. "The depressed economic market will continue to dampen demand for devices throughout 2023. In fact, end-user spending on devices is projected to decline 5.1% in 2023," said Ranjit Atwal, Senior Director Analyst at Gartner. "Just as business confidence was beginning to recover after the worst of the pandemic, it has now fallen significantly in most regions. We do not expect relief from inflation and the bottom of the recession to occur until the fourth quarter of 2023." The falling revenues underscore how demand for digital products has waned since the height of the pandemic.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales *(Continued)*

Below are those unfavourable factors which led to the dramatic year-on-year decline in sales of the Group. Let's look at the issues from the general economy, market, product and customer perspective respectively.

(i) General economy

Inflation continued to pose a significant challenge to the Group's operations in 2023, as it has led to a decrease in consumer purchasing power and increased price sensitivity. The persistence of inflation, particularly in emerging markets, presents a significant challenge for the mobile phone market in 2023. Elevated inflation rates erode consumer purchasing power and affordability, consequently dampening the demand for smartphones. In emerging markets where inflation is pronounced, such as India and certain Latin American countries, smartphone shipments may experience slower growth as consumers prioritise essential expenditures over discretionary purchases. Moreover, inflationary pressures influence the cost of production and transportation, leading to elevated prices for components and devices, further suppressing consumer demand. This has resulted in heightened pressure from our clients to further reduce prices, higher production costs and margin erosion pressure, and reduced profitability. Moreover, inflation has impacted investment decisions and intensified competition within the market.

The Chinese Government's now-defunct draconian COVID-19 policy hammered consumer spending and hit small business hard in the past three years. During the period, China's recovery has been weaker than expected post reopening, and the demand in China, the largest handset market, remained lukewarm. The pandemic and the lockdowns damaged household balance sheets as the economic activities were disrupted and China authority did not provide strong stimulus like the U.S. during the shutdowns. In the early part of 2023, consumers prioritised travel and entertainment over durable goods and it will take time for a more solid recovery.

Joblessness among the young remains stubbornly high and rising youth unemployment underscores the tough challenges ahead for the Chinese Government to achieve its economic targets and maintain social stability. Surging unemployment among young people is largely a result of China's economic slowdown. A regulatory crackdown on internet, real estate and education companies also hurt the private sector, which provides more than 80% of jobs in China. The rising pressure on the labour market may continue to weigh on China's consumption-led economic recovery. Young people who aren't able to find jobs will curtail spending; so will their parents, who may feel the need to hoard cash to support their kids. The youth unemployment rate could increase further, as a record number of 11.6 million college students are set to graduate this year and seek jobs in an already crowded market. Weak confidence will continue to

BUSINESS REVIEW *(Continued)*

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Review of Results and Operations *(Continued)*

Sales *(Continued)*

(i) General economy *(Continued)*

constrain the job market and companies are reluctant to hire more workers because consumers are cautious. Without a strong labour market, consumers will be hesitant to spend, and this 'chicken-and-egg situation' means organic job growth will be slow.

(ii) Market perspective:

(a) The poor demand situation continued in 2023 and demand visibility in 2023 is worse than 2022. The global handset market continued to be affected by various headwinds, including slowdown of the general economy, prolonged geopolitical uncertainty, sluggish consumer demand, Russia's invasion of Ukraine and upped cost of living and high inflation across all countries together with quantitative tightening policy which pushed up the risk of worldwide economic recession, uneven economic recoveries, handset market saturation, strong USD and high interest rate. Compounding the difficulties for the global smartphone market was the fact that global shipments had faced down trending since 2016 due to market saturation and existence of surplus capacity in certain markets. The availability of excess/surplus manufacturing capacity at many of our competitors created utilisation problem and intense competitive and pricing and margin erosion pressure on the EMS industry as a whole.

(b) On 27 April, IDC, according to preliminary data, reported that worldwide smartphone shipments declined 14.6% year over year to 268.6 million units in the first quarter of 2023. This marked the seventh consecutive quarter of decline as the market continued to struggle with lukewarm demand, inflation, and macro uncertainties and inventory has remained elevated across regions, yet was in a significantly better shape compared to six months ago thanks to reduced shipments and heavy promotional activities. "The industry is going through a period of inventory clearing and adjustment. Market players remain cautious deploying a conservative approach rather than dumping more stock into channel to chase temporary gains in share. "I think is the smart thing to do if we want to avoid an unhealthy situation like 2022," said Nabila Popal, research director with IDC. "While we are optimistic about recovery by the end of the year, we still have a tough 3 to 6 months ahead. Everyone is anxious about exactly when the tide will turn and wants to be first to ride the wave of recovery. However, it's a tricky situation. Anyone who jumps in too soon will drown in excess inventory. Now more than ever, it's important to keep a close pulse of market. Barring unforeseen elements, IDC expects the market to cross into positive territory in the third quarter and see healthy double-digit growth by the holiday quarter."

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales *(Continued)*

(iii) Customer perspective:

- (a) Our customers have too many inventory on hand and they are quite pessimistic on the outlook about market demand as the recession shadow is still strong and low- and middle-income groups were materially impacted by inflation and many reduced non-essential spending. Most buyers become conservative and demand for smartphones, especially of the premium segment, witnessed a decline due to the inclination of customers to cut down on non-essential spending and our customers are not confident how fast their on-hand inventory can be cleaned. For customers in other countries, under the harsh economic situation and fears of an economic slowdown and cost of living crisis, customer preference were changed to saving more money to support the growing living cost; in other words, the decline in demand in durable goods including handset continued to be the most impactful reason to worsen the Group's customers' business performance in the first half of 2023. To our knowledge, many potential new projects (some of which are already ranged under development by other ODMs) are cancelled to push out the new models to a later time frame. As the competition becomes fiercer and too many suppliers are chasing shrinking demands, less new models mean the open spots are tough to grab.
- (b) As end market demand became weak and uncertain and volatile, our customers adjusted their outsourcing strategy and were more cautious in their demand planning and product launch plan and budgetary control and demand visibility was greatly shortened and this bollixed the Group's production planning which made it difficult for the Group to schedule production in an efficient manner and optimise utilisation of our manufacturing capacity and workforce, and to estimate order book with reasonable certainty. This partly explained why unabsorbed overheads were high. In addition, as the end market was highly competitive, whether our customers could maintain pricing power and whether new products of our customers could sell well affect the re-orders to be placed by our customers, and the customers might cut initial order quantity if their new products could not sell well. Success of the Group is tied together with success of the products of our customers, which usually operate in saturated markets with severe competition. Market developments experienced by our customers and their products may from time to time affect the Group's business.
- (c) The Group faces vigorous competition from the manufacturing operations of our current and potential customers, who are continually evaluating the merits of manufacturing products internally against the advantages of outsourcing. The Group competes with different competitors depending on the type of product and service we are providing or the geographic area in which our operations are located. Our competitiveness is superior quality, cost competitiveness, rapid

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales *(Continued)*

(iii) Customer perspective: *(Continued)*

(c) *(Continued)*

scale production and accelerated production time-to-volume and time-to-market, ODM capability, lean manufacturing and higher efficiencies and global footprint. The impact of Ukraine warfare on our customers is not large so far but the Group has to continue to monitor the impact of high inflationary rates and interest rate hikes on end customers and handset markets and our customers. The unsatisfactory year-on-year increase shows that the sales recovery of the Group has been constrained by those unfavourable factors.

- (d) As the Group has high concentration of limited customers, there is a need to devote resources to the building up of business development capability and develop more new customers and penetrate other geographical market segment and expand ODM businesses and manufacture other types of products which have ample growth opportunities. 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 improve our performance and maintain our position and competitiveness and long term sustain ability in the industry indifferent countries.
- (e) Persisting “zero-COVID” policy of China in the past three years accelerated the global supply chain reconfiguration of the Chinese-centric global supply chain and finding of new suppliers and routes that allow diversification in times of crisis. Foreign companies re-assessed or adjusted their strategies for China. “China Plus One” and nearshoring policies of some customers gave the Group more opportunities in these overseas countries.
- (f) Given rising environmental awareness of IT waste, the challenging financial climate, and growing Business-to Business (B2B) channels, we expect refurbished smartphone shipments to grow in 2023, which will dilute new model demand a bit. In particular, the surge in the second-hand smartphone market can be largely attributed to increasing demand from emerging countries, and to the increasing difficulties of hardware and software innovation for new smartphone models which lead to a diminished desire among consumers to upgrade their devices.
- (g) In the second half of 2022, the Company adopted risk minimisation actions and capped trade receivable balance with HMD and shipment quantity for the current ongoing feature phone projects was limited to the corresponding amount of payments made by HMD so that outstanding trade receivable does not exceed a preset cap amount.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales *(Continued)*

(iv) Product perspective:

- (a) It is widely known that smartphone users are holding on to their devices longer and the frequency at which smartphone users purchase new models has been slowing as they upgrade to a new model less often and this lengthening of the replacement cycle is negatively impacting the Company's sales. Actually, the lengthening of phone replacement has last for years, but the impact has been less apparent. Sales to new users mask the declining sales to current users. When the market becomes saturated and sales demand is dependent on current users, any slowdown in upgrades surfaces to the forefront. It is worth noting that the upgrade cycle is different for various brands that are popular in the region. Aside from price and the decline in popularity of airtime plus handset contract bundles, the fact that people are keeping hold of their handsets for longer is interpreted as a sign of a maturing market. For one, as the technology has improved, handsets are not just being packed with more and more features, they are being made more robust and reliable, with better support and simpler repairs. Today's phones are getting more nice-to-have refinements rather than the awe-inspiring innovation seen just a couple of years ago. Smartphone innovation has stagnated and maybe we have reached peak smartphone. This obviously lends itself to longevity, owners can use a phone for much longer before they are forced to change it because it has reached the end of its life, and it could well be part of the reason why the race to upgrade the phones is slowing. In general, the upgrade cycle for both the high end and low end handsets are relatively long, comparing with the mid-range and premium grade segments which have a shorter cycle. On the other hand, with economic uncertainty increasing worldwide, consumers became more willing to buy refurbished smartphones, or second-hand handsets, rather than a new one. As a whole, the smartphone industry bears the hallmarks of one that's maturing: slowing smartphone sales growth along with the slower evolution of what we need, what we want and so forth.
- (b) With the diffusion of innovation and technology, the smartphone industry had already been commoditised. Commoditisation occurs when product or service products become indistinguishable from each other. This is because there are so many competitors in the market that all the products are pretty much the same. Commoditisation of technology is very common as technology products tend to become commoditised very quickly. When the first smartphone was released, it was a very differentiated product. But now, with the proliferation of smartphones, there are so many different types of smartphones on the market that they have all become commoditised and commoditisation can make it difficult for companies to differentiate their products or services from those of their competitors, and this can lead to lower prices and margins. Hence, commoditisation often leads to price wars. On the positive side, commoditised products are often more affordable and accessible to consumers. On the

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales *(Continued)*

(iv) Product perspective: *(Continued)*

(b) *(Continued)*

negative side, commoditisation can lead to lower profits for companies selling commoditised products, as margins are squeezed by competition. 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.

- (c) 5G availability throughout different countries also affects the replacement cycle length. IDC reported that worldwide 5G smartphone continues to grow and will reach 0.73 billion units in 2023 (accounting for 62.2% of smartphones shipped), rising to 1.13 billion units by 2027 (accounting for 83.7% of smartphones shipped), with a CAGR of 12.1% for 2022–2027, while 3G and 4G shipments are expected to decline by 22.9% and 17.1% respectively.

On top of the OEM business, to face the challenges posed by formidable competition from ODM enterprises, the Group has to devote resources and effort on innovative design solutions, efficient supply chain and cost management, and the enhancement of our MVA. To navigate the highly competitive landscape, we have to align our strategies with market demands, prioritise operational excellence, and capitalise on our strengths. The Group 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. The Group's automation engineering team continued to increase automation coverage across different manufacturing processes to diminish the impact of rising labour costs and enhance efficiency. The Group's dedicated and professional procurement team were leveraged to sourcing materials with competitive prices. Furthermore, there was continuous strong support from the Hon Hai Technology Group to offer in scale, 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. By doing so, we aim to enhance our competitiveness, seize growth opportunities, and successfully navigate the dynamic business environment. By closely monitoring the economic indicators and making informed decisions, we aim to position our business for long-term success and capitalise on any opportunities that may arise. Factors such as market dynamics, policy changes, and other economic variables will continue to influence the overall business environment. We remain vigilant and adaptable to these changes, ensuring that our strategies are aligned with the evolving market conditions and increase sales and shipments as low asset utilisation resulted in idle costs and assets, and unabsorbed overheads and the risk of the need to book additional asset impairment loss increased.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Profit and Loss account

The Group recognised a consolidated revenue of US\$2,677 million in the current period, representing a decrease of US\$1,448 million or 35.1%, when compared to US\$4,125 million for the same period last year. The reasons of the year-on-year decline in sales are stated above. Consumer demand continues to face very challenging environment amid the ongoing global economic slowdown in 2023 and the global consumer electronics market continues to be adversely affected by various headwinds, including prolonged geopolitical uncertainty, slowdown of the general economy and slow recovery, limited visibility, inflationary pressure, high interest rates and cost of borrowing, commoditisation and increasing life cycle of smartphones. Low- and middle-income groups have continued to be materially impacted by inflation and many have continued to reduce non-essential spending. Net loss for the current period was US\$49.8 million, when compared to a net loss of US\$23.8 million for the same period last year. In light of the negative factors mentioned above, net loss attributable to owners of the Company for the current period was US\$50 million, as compared to net loss attributable to the owners of the Company of US\$23.8 million for the corresponding period last year. Gross profit margin for the current period was 1.48%, compared to 1.98% for the same period last year and the dramatic deterioration in gross profit margin was due to the significant drop in the sales revenue and contribution margin as a result of sluggish handset demand and keen competition and huge margin erosion pressure and comparatively low asset utilization. Gross margin of both system assembly business and casing business are also very low as both system assembly and casing factories have been facing strictest competition as the production process is mature and well adopted by competitors. The terrible shrinking of profit margin and huge margin erosion pressure continue to be a common industry norm.

In the competitive EMS industry, profit margins were relatively low as component prices were on average and key focus lay on the labour costs and capacity utilisation and yield and cost control. The market was pessimistic for 2023 demand and the challenging conditions that the Group faced since late 2017 continued into 2023 and most channels were still filled with inventory and peers had to fight for the remaining very limited demands if existing inventory could not cover. The competition pressure is huge and the difficult operational environment that the Group operates and faces prevail and there is continued pressure on the Group's gross margins generally and this was aggravated by the sluggish demand due to prolonged phone replacement as a result of lack of upgrades and the threat of soaring inflation and interest rate hikes and persistent existence of surplus capacity in the market and sales recovery of the Group was constrained, including constantly becoming and remaining more cost-efficient in order to reduce the losses. As the margins of the customers were reduced, they were prone to cut the prices of the handsets we sold to them and margin erosion pressure on us was extremely high. The margin compression risk continues as sales growth is driven by the system assembly business, which has very low gross margin. The casing factories have been facing strictest competition as the production process is mature and well adopted by competitors, resulting in the shrinking profit margin and erosion pressure is

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Profit and Loss account *(Continued)*

extremely high and these becomes an industry norm. In China, the general casing manufacturing industry faced excess production capacity and crowded competition, and the gross margin of the Group's casing business continues to face huge pressure. The low entry barrier and availability of excess manufacturing capacity at many of our competitors and the Group created intense pricing and competitive pressure on the EMS industry as a whole and a majority of the market participants faced challenges with respect to the operating margin. China peers were particularly very cost competitive and the Group had to relocate some of the productions to India and Vietnam to capitalise on the huge domestic market there. Of course, some customers, who adopted the China Plus One policy, also asked the Group to move some of the manufacturing activities overseas in order to reduce the reliance on China supply chain. It is well acknowledged that some countries have approached mobile phone market saturation and demand dropped and cut-throat competition continues to increase and prices continue to be driven down to gain competitive edge and a majority of the market participants face challenges with respect to the shrinking operating margin in the EMS industry and EMS providers today must survive year-to-year on razor-thin profit margins and do whatever is necessary to survive. As market volatility and uncertainties increased dramatically and handset replacement cycle lengthened and demand dropped significantly, all these unfavourable factors intensified the competition of the global handset market and our customers were more cautious in their product roadmap and procurement planning, inventory control, cash flow management and demand forward visibility was greatly shortened.

At the same time, the Group had been aggressive in getting more orders in order to optimise asset utilization and adopted a proactive and aggressive business strategy and established a dedicated business development team to drive expansion into new markets and seize growth opportunities. There is a need to optimise our workforce utilisation rate, which is affected by a number of factors, including hiring of new employees, reliable forecast and projection of demand for our products and services, and thereby maintaining an appropriate workforce in each of our operating sites, management of attrition, training and development and matching the skill sets of our employees to the needs of the customers and industry are very important. The average cost of manufacturing labour in China is higher than neighboring countries like India and Vietnam and the adoption of "China Plus One" policy to mitigate supply chain risk of China prompted manufacturers to move out of China. The Group had 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 ODM capability in India and increasing local sourcing in India. The markets with fastest-growing demand were mostly developing countries such as India and Africa where the average income level was low and people tended to purchase much affordable mobile phones, which were low-end and mid-end models with lower margins. In particular, strong USD affected the purchasing power of the people and they became more price-sensitive and curtailed non-essential and discretionary spending and kept more cash. In order to meet the shift in consumer market

BUSINESS REVIEW *(Continued)*

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Profit and Loss account *(Continued)*

and customers' demands, the Group accepted more low-end devices manufacturing orders which contributed to profit erosion too. Feature phone sales to HMD faced downside pressure as high inflationary rates affected HMD sales of low end feature phones in African continent and India. Elevated inflation rates erode consumer purchasing power and affordability, consequently dampening the demand for feature phones. We also capped the trade receivable amount to control risks. In this inflationary environment, it is crucial for the Group to prioritise effective cost management and continuously seek avenues for optimising operational efficiency. By identifying opportunities for process improvements and embracing innovative strategies, we put effort to mitigate the impact of rising costs and adapt to the evolving market dynamics. These proactive measures will enhance the Group's competitive position amidst the challenges posed by inflation.

While the Group continues to closely monitor the rapidly-changing and competitive handset market and conditions and the Group's capacity and asset utilisation, the Group has continued to carry out rightsizing/restructuring activities, including the optimisation of staff force and disposal and/or liquidation of under-utilised/depreciated/obsolete assets. In view of the Group's changes in product portfolio and excess capacity, in 2020, the Group refined its approach and took necessary steps to become an asset-light corporate group and impaired and/or wrote off various under-utilised/obsolete assets of US\$42.7 million and the restructuring continued into 2021 and 2022 as it took time to carry out the downsizing and restructuring works and streamline the operations. Thanks to the rightsizing/restructuring carried out in the past couple of years, the Group becomes leaner and the company-wide cost trimming initiative and headcount cut resulted in annual savings in expenses which helped reduce costs and overheads in the long run. Despite of the Group's continuous effort to dispose of under-utilised/obsolete/depreciated assets in the past years, with the protracted Ukraine war and slow down of global economy which weakened handset demand, capacity and asset utilisation of the Group continued to be bad and disappointing and the idle costs and unabsorbed overheads were still high. People were also heavy burdens on the Group. The global economy slowdown continued to affect the recovery path of the Group seriously and demand sluggishness greatly reduced room for improving asset utilisation and capacity optimisation and there was a desperate need to optimise operations' workforce utilization. To effectively address these challenges, we took decisive action in the first quarter 2023 to reduce operational costs and enhance organisational efficiency. This included implementing a restructuring initiative in Northern China with an aim to retain only top talent within the organization to ensure a streamlined and high-performing workforce, and prioritise spending related to future business. Those rightsizing/restructuring activities have given rise to, among others: (a) severance payments, booked as general and administrative ("G&A") expenses, upon optimisation of staff force, a total of US\$18.9 million for the current period, compared to a total of US\$3.1 million for the six months ended 30 June 2022; and (b) losses from asset disposals, write-off and impairment of US\$2.2 million for the current period, compared to a

BUSINESS REVIEW *(Continued)*

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total of US\$2.7 million for the six months ended 30 June 2022. We will continue to review and monitor the external market dynamics and performance of the business and phone demand and evaluate if there is a need to shut down loss-making/underperforming operations and carry out restructuring activities.

There was an increase in expected credit loss allowance of US\$36.3 million, mainly due to the long overdue trade receivables balance of HMD. As explained, market continued to be extremely tough and global economic and political uncertainties, market volatility, and reduction in end market demand seriously affected the business and cash position of some of the Company's customer and collectively increased the credit risk and there was a need for the Group to make adequate expected credit loss allowances in the book to reflect the actual and potential collection risks of these customers. The Group will provide further expected credit loss allowance if HMD fails to settle the overdue trade receivable and the amount can become huge in the second half of 2023. Pursuant to IFRS 9, the Group performs impairment assessment on trade receivables under expected credit loss model. For customer with increasing credit risk, the management appointed an independent valuer to assist in the estimation of the expected credit loss allowance of the trade receivables due from such customer by determining an appropriate probability of default rate, forward looking adjustments and estimated loss given default (LGD) rate. LGD denotes the share of losses, i.e. the actual receivables loss in the event of customer default, or what is expected to be irrecoverable from among the assets in insolvency proceedings. The Group uses a provision matrix to calculate expected credit loss allowances for trade receivables which are not credit-impaired or with increasing credit risk. The provision matrix is based on debtor's aging of groups of various debtors that have similar loss patterns. The provision rate is based on the Group's historical observed default rates taking into consideration of forward-looking information that is reasonable and supportable and available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In light of the high uncertainties of the global economy and weak consumption power and handset market and geo-political tensions, the Group reassessed the expected credit loss allowances by increasing the expected credit loss percentage for overdue trade receivables during the period. During the current period, based on the provision matrix and the assessment, the Group provided net impairment loss under expected credit loss model of US\$50.7 million (same period of 2022: US\$14.5 million) and the accumulated amount of expected credit loss allowance made as at 30 June 2023 was US\$142.1 million.

Other income, gains and losses for the current period were US\$132.7 million, representing an increase of US\$69.2 million from that for the same period last year. On 2 November 2022, the local government of Hangzhou, Zhejiang Province, the PRC and Honxun Electrical Industry (Hangzhou) Co., Ltd. (an indirect wholly-owned subsidiary of the Company) entered into compensation agreements, under which the local authority resumed the ownership of the land

BUSINESS REVIEW *(Continued)*

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and the properties. The gain on the disposal is recorded on the Group's consolidated statement of profit or loss over the years according to the cancellation of land use rights and related certificates in relation to the properties. The details were disclosed in the Company's discloseable transaction announcement dated 2 November 2022. Before-tax gain on disposal of US\$78.5 million was recorded in the first half of 2023 (Nil in the first half of 2022 and US\$6.2 million in the second half of 2022). Furthermore, the Group has made provision for compensations to the lessees and the service providers of US\$13 million in the current period. There was also a year-on-year increase in service income by US\$15 million (for the six months ended 30 June 2023: US\$22.5 million, for the six months ended 30 June 2022: US\$7.5 million) due to an increase in the product development service provided to the customers. Regarding interest income, as the group held more USD and after FED continuously raised the interest rate, the USD interest rate was much higher than that of RMB and the interest income increased by US\$5.2 million (for the six months ended 30 June 2023: US\$24.2 million, for the six months ended 30 June 2022: US\$19 million).

There was also a year-on-year increase in foreign exchange loss by US\$20.1 million (for the six months ended 30 June 2023: loss of US\$6.5 million, for the six months ended 30 June 2022: gain of US\$13.6 million). In the first half of 2022, the group experienced a foreign exchange gain of US\$13.6 million, due to its holding of USD assets and the appreciation of USD during the period. On 7 December 2022, the Chinese Government lifted zero-COVID controls and the RMB appreciated against USD in the first quarter of 2023 and the Group recorded foreign exchange loss. But the economic recovery lacked momentum and FED continued to raise interest rates to fight inflation, the RMB turned to depreciate against USD in the second quarter of 2023. As a whole, during the period, the Group recorded foreign exchange loss which is mainly due to the foreign exchange loss generated on the forward contracts entered into by the Group, which is partially offset by the foreign exchange revaluation gain of USD-denominated trade receivables balance on appreciation of USD against RMB. Exchange rates of RMB and USD will continue to be volatile and the Group will continue to maintain its consistent hedging strategy to minimise foreign exchange exposure caused by exchange rate volatility.

The Group took aggressive steps to reduce operating expenses and headcount and control capital expenditures to better align with the future needs of the business. Regarding operating expenses, for the current period, it was US\$122 million, compared to US\$133 million for the same period last year. For selling expenses, the increase of US\$2 million was mainly due to additional expenses incurred for new business development in India. For G&A expenses, the decrease of US\$2 million was mainly because of service fees payment being reduced by US\$4 million, staff cost saving of US\$6 million resulted from the prior optimisation of G&A headcount and no share options expenses of BFIH recorded in the current period as an acceleration of vesting under IFRS 2 upon the cancellation of BFIH's share options with effect from 12 June 2022 (same period in 2022: US\$9.5 million). The total saving was partly offset by the increased severance payments of US\$15.8 million (for the six months ended 30 June

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2023: US\$18.9 million; for the six months ended 30 June 2022: US\$3.1 million) incurred during the current period. For R&D expenses, the decrease of US\$11 million was due to reduced payment of professional service fee for development of handsets. The Group will continue to focus on prioritizing spending related to future business and avoiding cost overruns.

Regarding interest expenses, in the beginning of 2022, the U.S. interest rate was 0% to 0.25% and FED began its rate-hiking path in March 2022 with an aim to arrest a stubborn inflation wave and increased interest rates over the months by a quarter point on March 2022 to a range between 4.75% and 5% at the end of June 2023. After another interest rate hit in July, the interest rate reached 5.25% and the market expects FED will maintain this high level of interest rate until CPI improves to 2%. In the year since, inflation as measured by the consumer price index had come down some, from an 8.5% annual rate then to 6% and trending lower. While that's progress, it still left the FED well short of its 2% goal. In the current period, although we borrowed less USD, yet U.S. interest rate increased dramatically and the interest rate during current period was high comparing with the interest rate in the first half of 2022 and interest expenses increased. As a whole, there was a decrease in net interest income for the Group. Interest income and interest expense for the six months ended 30 June 2023 were US\$24.2 million and US\$23.6 million respectively and net interest income was US\$0.6 million while the interest income and interest expense for the same period in 2022 were US\$19 million and US\$7.3 million respectively and net interest income was US\$11.7 million.

There was also a year-on-year decrease in the share of losses of the Group's loss-making associates and joint venture, which were accounted for using the equity method in the Group's consolidated financial statements. During the current period, the share of losses of the Group's associates and joint venture amounted to US\$3.2 million and US\$2.1 million respectively (compared with losses of US\$4.1 million and US\$5.2 million for same period in 2022) and there may be possible losses from the impairment of investments in those associates and joint venture as the uncertain global environment may give rise to potential losses in the operations of those associates and joint venture. One of the associates suffered a loss as it lost orders of a major customer whilst the joint venture suffered a loss as hardware sales faced strong headwinds and the EV market in mainland China is becoming hyper-competitive, impacting both the volume and selling price and the margin erosion pressure is becoming growingly high.

Income tax expenses during the current period was US\$20.2 million, when compared to income tax expenses of US\$4.9 million for the same period of 2022 and the year-on-year increase was mainly due to the US\$16.5 million income tax expenses recognised on the gain of disposal of land and the properties of Honxun mentioned above.

BUSINESS REVIEW *(Continued)*

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Review of Results and Operations *(Continued)*

Profit and Loss account *(Continued)*

Despite most of the world's major economies having re-opened, there are still many other challenges and it needs time for the Group to turn around and the recovery path can be long and tough. China, the world's second-largest economy, is beset by a series of other crises, from a debt-laden property sector to flagging consumer confidence, global inflation, the threat of recession elsewhere and geopolitical tensions with the U.S. For almost three years the Chinese Government persisted with rolling lockdowns and mass testing to stop COVID-19 from spreading. In 2022, China's GDP expanded at its slowest pace since the mid-1970s, bar the COVID-hit 2020 year. We will continue to experience adverse impacts to our businesses as a result of its global economic impact and geo-political tension, including any possible recession, as well as lasting impacts on our suppliers, third-party service providers and/or customers and consumers and their behaviors. In other words, utilisation will continue to be a burden and can only be improved gradually when the market ultimately picks up momentum. As a whole, there is a continuous need to reduce operating expenses and redundant assets, and optimise headcount 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 a 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. It is also the long term commitment of the Group to invest in R&D competence building and business development capability. 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.

As demand is weak and the market is growingly saturated and macro-economics and geopolitical landscape are tough and dynamic and volatile, a lot of uncertainties will continue to affect our performance and our current/past operating results and earnings/losses may not be indicative of our future operating results and earnings/losses and risk profile and quarterly performances. It is also 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 reacts to the best of its capacity and makes business decision of terminating loss making operations and reducing headcount in a decisive manner.

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

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Profit and Loss account *(Continued)*

in a material respect. However, to seek to ensure that the Group will maintain that, and given the significant decline in market demand and slowdown of economy and Ukraine warfare and high inflation and strong USD and interest rate hikes, the Group has continued to focus on proactive measures to control overall costs and operating expenses and improve yield and efficiency, 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 in a timely manner amidst fierce market competition and build up business development capability, and with suppliers to secure stable supply of materials and components. Support of local government is of equal importance. It is the Group's business strategy to become more asset-light and lean, and accordingly, the Group has continued its exercise of downsizing/restructuring of the underperforming/loss-making parts of its manufacturing operations, headcount reduction and has generally suspended capital expenditure on non-critical investments and/or capital assets and has also got rid of its obsolete, depreciated and under-utilised assets. The Company will continue to closely monitor the situation and asset utilisation, and where it considers necessary, will implement further appropriate measures like carrying out further rightsizing and restructuring activities which can improve utilisation and realise cost savings. 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 2023 progresses.

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 3.2% negative, when compared with the ROE for the same period last year of 1.2% negative. The ROE declined as a result of increased loss making.

Basic loss per share for the current period was US0.6 cent.

Dividends

The Company has adopted the following dividend policy which aims at enhancing transparency and facilitating its shareholders and potential investors to make more informed investment decisions — the form, frequency and amount of dividends to be declared each year and dividend pay-out ratio will be dependent upon the Group's business outlook and strategy, financial performance and cash flow generated from operations, projected working capital and capital structure, future expansion plan and capital expenditure and capital requirements, cash position and other relevant factors as the Board may from time to time deem appropriate. The performance of the Group has been volatile in the past couple of years and economy slowdown and drop in handset demand and U.S. ban and geo-political tensions

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Dividends *(Continued)*

and soaring inflation and interest rate hikes and strong USD 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 when it considers necessary, will adjust and/or enhance its dividend policy, as appropriate.

On 22 December 2021, the Company announced that the Company proposed to spin-off and separately list the equity shares of BFIH, its Indian subsidiary which is one of the largest Electronics Manufacturing Services providers in India, on BSE Limited (“BSE”) and National Stock Exchange of India Limited (“NSE”), which are the two main stock exchanges in India (the “Proposed Spin-off”). In that announcement, the Company also announced that the Stock Exchange had confirmed that the Company might proceed with the Proposed Spin-off pursuant to Practice Note 15 of the Listing Rules and that BFIH had filed its draft red herring prospectus in relation to the Proposed Spin-off with the Securities and Exchange Board of India (“SEBI”), BSE and NSE. To give due regard to the interests of the shareholders of the Company by allowing them to directly benefit from the Proposed Spin-off (and taking into account that the Company would not be able to provide its shareholders with an assured entitlement to the equity shares of BFIH pursuant to the Proposed Spin-off due to the legal restrictions and practical difficulties involved) and subject to the Proposed Spin-off being completed, the Company proposed to pay a special cash dividend to the shareholders of the Company of an aggregate amount which would not be less than 40% of the net proceeds to be received by the Company from the sale of existing equity shares in BFIH pursuant to the Proposed Spin-off.

As noted in the Company’s announcement dated 20 October 2022, in view of the then market conditions, the Company has decided to delay the timetable for the Proposed Spin-off and the Company intends to continue to pursue the Proposed Spin-off when market conditions improve.

Further to the Company’s announcement dated 20 October 2022, on 12 May 2023, the Company announced that, in view of the market conditions since then, BFIH has decided to further delay the timetable for its Proposed Spin-off, which accordingly will not be open for subscription by 9 June 2023, being the last date on which the Proposed Spin-off can be open for subscription according to the final observations received from SEBI on 10 June 2022. The Company still considers that the Proposed Spin-off (if it proceeds) will be commercially beneficial to the Company and BFIH and the Company intends to continue to pursue the Proposed Spin-off when market conditions improve.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Dividends *(Continued)*

Accordingly, if the Proposed Spin-off proceeds, details of the special cash dividend, including the amount and timing of payment, will be announced by the Company in due course.

Meanwhile, as noted in the above announcements of the Company, shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, the approvals from the relevant regulators in India, market conditions and other factors, and accordingly, there is no assurance that the Proposed Spin-off and the proposed payment of a special cash dividend by the Company following the completion of the Proposed Spin-off will take place or as to when it may take place.

Geographical Segments (please refer to note 3 of “Revenue and Segment Information” to the consolidated financial statements)

The Group determines operating segments based on reports reviewed by management for the purpose of allocating resources to the segment and to assess its performance. Segment profit (loss) represents the gross profit earned (loss incurred) by each segment and the service income and certain gains and losses (included in other income, gains and losses) after deducting all selling expenses and impairment loss under expected credit loss model, net of reversal. The Group’s operations are organised into three operating segments based on the location of customers and segment profit (loss) represents the gross profit earned (loss incurred) by each segment and the service income and certain gains and losses (included in other income, gains and losses) after deducting all selling expenses and impairment loss under expected credit loss model, net of reversal. Aligning with the Hon Hai Technology Group strategies and adapting the fast-changing consumer appetite for future technology demand, the Group’s future business plan would focus on remaining lean and asset light and agile and margin protection and diversifying in terms of customer and products and geography and be technologically advanced and continually monitor the market competition and macro-economic conditions, and geo-political tensions and economic slowdown and market demand. On the demand side, as explained, the handset market now becomes demand-constrained and the competition pressure continues as the market slows down and most channels are still filled with inventory. OEMs and ODMs have to fight for the remaining very limited demands if existing inventory cannot cover and the market is quite pessimistic for 2023 demand. According to a forecast made from IDC in May 2023, global shipments of smartphones will decline 3.2% in 2023, totaling 1.17 billion units for the year. This is a downward revision from the 1.1% decline forecast in February this year. The revision is being driven by several factors, including a weaker economic outlook and ongoing inflation. IDC highlighted that consumer demand is recovering much slower than expected in all regions, including China. “If 2022 was a year of excess inventory, 2023 is a year of caution. While everyone wants to have inventory ready to ride the wave of the inevitable recovery, no one wants to be stuck holding it too long.” said Nabila Popal, IDC research director.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Geographical Segments (please refer to note 3 of “Revenue and Segment Information” to the consolidated financial statements) *(Continued)*

Many consumers admitted that the mobile phone is getting more and more expensive and it is not a priority for them to replace functioning smartphones under the high inflation backdrop. Thanks to technological advancements, handsets are not just being packed with more and more features, they are being made more robust and reliable, with better support and simpler repairs. This obviously lends itself to longevity, owners can use a phone for much longer before they are forced to change it because it has reached the end of its life. In addition, without any transformative innovation, mobile phones now all look the same and have no new features and people think that the price does not meet the value. The phenomenon of people keeping hold of their handsets for longer is interpreted as a sign of a maturing market. Into the second half of 2023, the market continued to see limited new innovation features to accelerate replacement demand in the near future, while consumer sentiment and household income could turn even weaker in the coming months. Thus, it is not expected that there will be any reversal driver and the replacement rates will stay at a prolonged level for longer. Smartphone replacement cycle varies widely between countries and regions, and many of them follow different pattern throughout the years.

As competition escalated, high inflation drives phone demand drops and demand for casing and assembly business in China is directly affected and asset utilisation of remaining assets of the Group in China dwindled. The Group has to deal with a volatile economy and variable demand with short visibility resulting in fluctuations in production so efficient lean capabilities must be in area to maintain inventory aligned with demand. Being lean and agile is of critical importance and the Group has to control expenses and overheads and spending and headcounts and capital expenditures and eliminate idle assets and control risks (in particular trade receivables and inventory and material/components purchase) and work closely with customers and suppliers seamlessly so as to increase preparedness and the ability and readiness to respond in a quick and proactive manner as external environments and geo-political situation change very fast, with an aim to minimise the impact/damages of these adverse factors to operations and shipment and balance sheet position of the Group, and to preserve cash. EMS companies are trying to overcome these challenges in a myriad ways combining the traditional and emerging tools and methodologies like the adoption of digital technologies, combining software, connectivity, automation, AI and ML (Machine Learning) to optimise every aspect of operations to improve time-to-market, time- to-volume, and planning and scheduling, to ultimately improve the customer experience and create a win-win situation. Conventionally, 3C products have been the majority revenue contributor to the EMS market. However, with the start of the digital age driven by the ever-growing dependence on data, automation, and artificial intelligence, the need to embed electronics into products across all verticals has increased drastically. On the bright side, some emerging verticals that introduce innovative technology and products by adopting IoT and AI applications include medical and

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Geographical Segments (please refer to note 3 of “Revenue and Segment Information” to the consolidated financial statements) *(Continued)*

smart-home devices. The automotive vertical will be one of the growth opportunities in the next decade. The development of self-driving cars and Electric Vehicles (EVs) necessitates advanced electronics-based products such as Advanced Driver Assistance System (ADAS) and infotainment that require the expertise of EMS companies.

On the supply side, the world’s manufacturing powerhouse, China, is already filled up with excess production capacity and crowded competition, and the gross margin of the Group’s casing and assembly business continues to face huge pressure from the peers in China and India, and the situation has become worse as a result of the stagnant inflation and heightened political tension between the U.S. and China. Certain electronic devices are prohibited from being manufactured or exported from China, therefore, in order to survive, the non-mobile phone Chinese EMS providers shifted to the already saturated mobile phone EMS market.

Operating segments’ measure of result is based on income derived from operations. Inflation and geopolitical concerns will dominate the agenda for 2023, negatively affecting both consumer demand and brands’ operating costs. Consumers are adjusting their behaviors, as many trade down to cheaper items to reduce their spending. From geographical segment perspective, no business was immune from global economy slow-down and phone demand in different geographical segments were influenced by different macro-economic factors and geo-political tensions. As a result, segment revenue and margin as well as overall earnings, might fluctuate and performance of different segments could vary quite differently. Countries with large numbers of domestic consumers would witness home-grown manufacturers of OEMs and ODMs, mainly driven by initiatives and support of the respective governments like India. In 2022, Asia segment was hit the most. During current period, the situation continued to be very bad and all geographical segments were affected by various extent. The Group has to keep watching global headlines closely in the period ahead, as macroeconomic and political uncertainties will continue to obstruct business operations and the Group needs careful planning to navigate the many uncertainties and possible recessionary risks that lie ahead in the second half of 2023.

Asia Segment

The revenue of Asia segment in the current period was US\$1,875 million, representing a decrease of US\$993 million, or 34.6% when compared to US\$2,867 million for the same period last year. Result for the current period was US\$37 million, representing a decrease of US\$10 million when compared with result for the same period last year, and the decline was due to decrease in shipment resulted from poor demand and change of outsourcing strategy of one major customer who found new manufacturing partners in China and India. The Group’s two main regional markets in the Asia segment are Mainland China and India and both markets

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Geographical Segments (please refer to note 3 of “Revenue and Segment Information” to the consolidated financial statements) *(Continued)*

Asia Segment *(Continued)*

continued to face huge difficulties during the period. Weak demand and high inventory caused customers to become more cautious and realign their focus on risk mitigation and cut back drastically orders for both feature phones and smartphones and the poor situation continued in 2023 and this affected the performance and recovery of the Asia segments in 2023. According to IDC, Asia Pacific will still maintain its lead in the worldwide smartphone market because of its sheer size, witnessing the highest 5-year CAGR (Compound Annual Growth Rate) (2.54%) among all global regions. Smartphone shipments in Asia Pacific is expected to reach 687 million, totally accounting for 50.8% of all smartphone shipments worldwide by 2027. In particular, China's smartphone shipments is projected to decline by YoY 1.7% to 281 million in 2023, and will gradually recover with a CAGR of 1.3% for 2022–2027; India's smartphone shipments is estimated to decrease by YoY 1.1% to 143 million in 2023, yet a CAGR of 4.7% for 2022–2027. In the first quarter of 2023, smartphone shipments in China saw a drop of 11.8% YoY to 65.4 million units. Even though the zero-COVID policy ended in December 2022, the market continued its double-digit decline from the first quarter of 2022. The main factors include gloomy consumer confidence, wealthier consumers shifting their spending towards leisure and services instead, and lengthening replacement cycles. In China, because of market saturation and the drop in demand, it was widely acknowledged that the smartphone market was stagnant and many handset brands faced inventory accumulation challenges and struggled to clear inventory since the third quarter of 2022. For India, in the first quarter of 2023, India's smartphone shipments declined 16% YoY to 30.7 million units, which was the lowest first-quarter shipments in four years, since consumer demand remained sluggish amid uncertain macroeconomic conditions, high inventory build-up carried over from 2022, consumers' growing preference for refurbished phones and pessimistic channel view of the market contributed to this decline.

Our success depends on the performance of business and outsourcing strategy of our customers. One of the Group's major customers of Asia segment changed its outsourcing strategy and outsourced to other local EMS companies in China. Same customer, in India, lost mass appeal and experienced a significant 44% YoY decline due to weak demand in the sub-INR 10,000 (~US\$245) segment and this segment considerably slowed down over the last nine months as there is a decline in the first-time users, as a result, local competitors in India become a serious threat to our India operation by passing on PLI (Product Linked Incentive) scheme benefit to this customer. For Sharp phone business, inflation in Japan and the devaluation of Japanese yen lead to the rise of domestic prices, and the willingness of terminal customers to change machines is reduced. Sharp is actively looking for production partners outside of China to counterbalance higher labour costs of China. For the manufacturing of consumer electronic products for Ensky, macro-economic environment is not good and consumer spending on electronic devices is still weak. The customer of Ensky has a lot of inventory on hand and the inventory carrying cost is very high and it becomes

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Geographical Segments (please refer to note 3 of “Revenue and Segment Information” to the consolidated financial statements) *(Continued)*

Asia Segment *(Continued)*

more conservative and controls the budget and procurement volume and inventory very tightly. In addition, as market is stagnant, the competitors of Ensky offer much more competitive prices and very aggressive investment. During the current period, the loss of sales to these major customers accounted for the large the year-on-year decline in sales of the Asia segment. Despite these factors, Asia segment remains the Group’s core performance contributor in 2023. The decline of demand directly affected the utilisation of capacity and assets (in particular land and building) and there was a need to continue the downsizing and restructuring activities and downsize or terminate loss-making operations and sell idle land and building. During the period, the Group duplicated out a large scale redundancy action in Northern China to optimise the headcounts.

Europe Segment

The recorded revenue of Europe segment in the current period was US\$346 million, representing a decrease of US\$145 million, or 29.6% when compared to US\$492 million for the same period last year. The recorded loss of this segment was US\$42 million, when compared with the recorded earning of US\$5 million for the same period last year, and the decline was mainly due to decrease in shipment resulted from continuous tight control on shipment to HMD and the need to make additional expected credit loss allowance of US\$54.6 million during the current period for overdue trade receivables of HMD.

The worldwide feature phone market continued to decline. In emerging markets, the ongoing decline was primarily resulted from brand makers and mobile operators transitioning product portfolios away from feature phones to affordable entry-level smartphones and this affected sales of HMD (which is a Finnish company) to these markets. The Group used to adopt a pro-active approach and monitor and control outstanding trade receivables with HMD. As the fund-raising of HMD in 2022 was not successful and the overdue trade receivables amount of HMD kept increasing, starting from the second half of 2022, the Group ceased to accept new Nokia-branded feature phone projects and only continued the production of in-the-market products (IMP) and capped the trade receivable amount with HMD. As HMD has nearly used all the credit limit available, the balance of trade credit now becomes small and we align shipment quantities with payment statuses and HMD now can only get shipment of phones upon paying an equivalent amount of cash. Such credit control is the major reason accounting for the year-on-year decline in sales of the Europe segment. In addition, our supply chain management planning has been adjusted to prioritise the shipment of slow-moving component projects, mitigating the risk of surplus and obsolete inventory. Regarding the completion timeline for IMP in HMD Nokia-branded phones, the IMP are expected to be completed by the end of this year.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Geographical Segments (please refer to note 3 of “Revenue and Segment Information” to the consolidated financial statements) *(Continued)*

Europe Segment *(Continued)*

The Company is closely monitoring the level of outstanding trade receivables, the situation and evaluating whether HMD can continue as a going concern and risk to the collection of overdue trade receivables and associated default risk and the impact of this segment on the Group’s overall performance and cash flow. Given the increased risk to the timely collection of trade receivables of HMD, the Group increased its expected credit loss allowances for trade receivables in Europe segment to US\$54.6 million during the current period. In 2022, expected credit loss allowances for trade receivables of US\$12.7 million have been made.

One of the Group’s major customers, which is a U.S.-based Internet customer with a strong foothold in the States, expanded its sales in Europe and exhibited strong and encouraging growth. In spite of the overall decrease in smartphone shipments in the European region, this major customer has expanded its market reach by introducing its latest flagship hardware to four additional European countries. The expansion partially offsets the decline in sales to the HMD of Europe segment.

America Segment

For the America segment, core businesses include the selling of phones manufactured in China and Vietnam to a U.S.-based Internet customer, and provision of services including reverse logistics, repair and refurbishment of smartphone for OEMs and carriers, and electronic products after-market services by the Group’s entities located in the U.S. and Mexico. Due to significantly dampened consumer demand, inflation, and economic uncertainties, U.S. smartphone market faced a 11.5% decline in the first quarter of this year, according to IDC. The recorded revenue of the Group’s America segment in the current period was US\$456 million, representing a decrease of US\$310 million, or 40.5% when compared to US\$766 million for the same period last year and the decline was directly led by the low consumer sentiment and weak demand. Result for the current period was US\$11 million, representing a decrease of US\$10 million when compared with result for the same period last year.

A major customer of the Group is an established U.S.-based Internet company, with whom the Group has a long history of cooperation. The Group provides comprehensive engineering and production services to deliver superior, reliable, and trustworthy premium smartphones that meet the customer’s demand. To differentiate ourselves from competitors, we collaborate with this customer from the NPI (New Program Introduction) stage and promptly ramp up production to meet the customer’s time-to-market and time-to-volume strategies. We continuously develop automation robot software, robot central control systems, and AI inspection algorithms to reduce labour dependency and eliminate manual inconsistencies. In

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Geographical Segments (please refer to note 3 of “Revenue and Segment Information” to the consolidated financial statements) *(Continued)*

America Segment *(Continued)*

In addition, we employ real-time big data analysis and visualisation tools to improve yield and support the customer in all aspects of production. To mitigate the risk of concentration in a particular region/country, we offer competitive geographical advantages and management excellence to this customer. The pandemic situation has improved in the first half of 2023, and the supply chain returned to normal, with no short-term risks of material shortages foreseen. This indicated a relatively stable supply of materials and components. Based on forecasts on hand, given the external environment's influence, the overall market conditions remain unfavourable, and a slight decline is expected in 2023 compared to 2022, which could be attributed to market recession, intensified competition, lower-than-anticipated demand or other factors impacting business operations. In summary, 2023 presents challenges such as a sluggish market and external uncertainties that may impact the performance. However, with the supply chain normalising and stabilized material supplies, we are better equipped to tackle these challenges.

The Group has a strong after-market services including reverse logistics, repair/refurbish services and manufacturing services located in North America region which offer integrated solutions providing American customers the end-to-end value-added manufacturing services and after-market-service covering the entire product life cycle. During the current period, the operations at both sites in U.S. and Mexico are facing demand forecast decrease challenges. Due to the high inflation rate in U.S. and slow growth of the global economy, consumer spending shrunk and became conservative which will be impacting our operation sites and there is a need to adjust the Group's U.S. after-market services operation.

On the other hand, building upon the R&D capabilities established since 2021, the Group is in the process of developing new wearable and mobile products for new customers, and engaging in discussions regarding new product designs, development, and production with potential clients. It is expected that growth will continue in the fields of mobile phones, wearables, and 5G Fixed Wireless Access (FWA). The Group also aims to diversify its product lines from mobile phones and routers to encompass wireless communication devices. In line with this strategy, the Group has ventured into the design and manufacturing of wireless data modules for globally recognized brands. By collaborating closely with customers, the Group is also exploring opportunities in the realm of final terminal devices. The Group has secured partnerships for eBook design and manufacturing, as well as for the burgeoning market of ePaper IoT devices. In the field of EVs, the Group is collaborating with a customer on LTE cluster manufacturing for 2-wheeled vehicles. Moreover, in the mobile phone sector, the Group has received substantial orders for 5G smartphones from a customer due to the transition from 3G to 5G in the Japanese market. Furthermore, leveraging its solid hardware and software design expertise and capabilities, the Group has gained the trust of top-tier automotive manufacturers and has entered the new domain of automotive products. The first

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Geographical Segments (please refer to note 3 of “Revenue and Segment Information” to the consolidated financial statements) *(Continued)*

America Segment *(Continued)*

product in this category, the 4G T-Box, is scheduled to commence shipments in the fourth quarter this year. For these new business opportunities, it needs time to develop and the business volume may be small in the beginning.

Due to abovementioned unfavourable factors, like other geographical segments, the performance of the America segment had a negative impact on the Group's sales performance during current period. 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

After considering the Group's business and customer structure and other factors, we proposed to make some adjustments in the selection of its competitors and for better understanding in this interim 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 to clean up pile-up inventory since the middle of the previous year, 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 and turnover rate 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.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Peers *(Continued)*

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. As the current macroeconomic situation become more fragile, they have put efforts on diversifying and optimising their product mix to promote long-term growth. Performance of our casing peers in the first quarter of 2023 or in 2022 are listed as follows:

- (i) Peer 1 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 and modules, electronic connectors and components, new energy vehicle connectors and modules, and robots, industrial Internet. In the first quarter of 2023, its revenue declined by 16.59% year-over-year, mainly attributed to the decrease in global shipments of notebook products under the weak demand. Yet, in terms of profitability, its gross profit margin increased by 3.8 percentage points, benefiting from the lower raw material prices. The company has been aiming to lower the proportion of revenue from mobile phones to reduce the dependence on a single product and pump up the margin performance. The company's business with an international customer has kept growing and the casing and components of its notebook and smart wearables have experienced rapid growth. Apart from this, the company has been actively expanding its new energy vehicle business, which was another key momentum for its growth. Moreover, to step into the Metaverse industry, the company has built strategic partnerships with several customers in AR/VR fields and has obtained the supplier qualification of key customers.
- (ii) Peer 2 is a Hong Kong-listed company whose business includes handset casings and high-precision components, household and sports goods, network communications facilities, and smart electrical appliance casings. In 2022, the company recorded a 19.9% year-over-year decline in revenue, since multiple economic headwinds and the weak Android smartphone market have adversely affected its handset-related business. Though the handset casings and high-precision components business remains the company's core business, the company has been strategically shifting its focus to tri-proof and high-precision components, VR/AR and "metaverse" related businesses to promote the continuous growth of business in the long run and improve the profitability. In addition, to enhance operational efficiency and be more adaptable to the unstable environment, the company has divested its household and sports goods business and sold off parts of its automobile business. Moreover, it also entered into a sale and purchase agreement with an independent third party for the disposal of the smart electrical appliance casing business in the first quarter of 2023.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Peers *(Continued)*

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, component constraints, global logistic problem, China's factories lockdown due to the domestic prevention measures and pent up consumption power caused by inflation also affected the companies significantly in its OEM business. In response to these factors, some competitors in this industry aggressively established manufacturing capacities out of China and put more effort on other high-margin and high-growth businesses, even expand into new industries by leveraging their resources. The Group's Indian operation is strong due to its ownership of a very large system assembly capacity and its vertical integration from PCBA to complete handset assembly, while currently there are only a few peers with existing overseas capacities or overseas capacities that are just being established, so the Group can utilise its existing capacities in India, Vietnam and other countries to capture first-mover advantages.

For our peers of EMS business listed in the U.S., PRC and Hong Kong, as mentioned above, they have been exploring new business opportunities and expanding their product categories to improve the margins and to diversify the risk of high dependency on mobile phones or few customers. Performance of our EMS peers in the first quarter of 2023 are listed as follows:

- (i) Peer 1 is a Hong Kong listed company whose business includes mobile phone and laptop assembly, new intelligent products, components and parts of the mobile phone and laptop, and automotive intelligent system. In the first quarter of 2023, the company reported a dramatic 26% revenue increase. Its revenue from EMS/ODM and components still accounts for a large portion of total sales, at 76.7%. Despite being affected by the weak Android smartphone market, the company's assembly and component share of tablets from an International, non-Android customer continued to rise, which mainly drove its revenue to grow. On the other hand, the company has been accelerating the expansion of diversified products, including new intelligent products such as smart home, gaming hardware, robotics, unmanned aerial vehicles, residential energy storage products, etc. In particular, its residential energy storage has established a strong brand presence in Europe and experienced rapid revenue growth in the first quarter of 2023 and it is expected that the company will achieve nearly double the growth this year. Also, its revenue from the automotive intelligent systems has been continuing to soar, benefitting from the significant increase of new energy vehicle shipments of its parent company and its rapid expansion of new product lines. As for profitability, the company's gross profit margin went up by 2.2 percentage points

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Peers *(Continued)*

(i) *(Continued)*

year-over-year in the first quarter of 2023. This improvement can be attributed to various factors, including optimising the product and customer portfolio, enhancing scale, and improving capacity utilisation. Looking into 2023, the company's major growth drivers are predicted to come from its growing share gain in OEM/components from a major international customer, automobile segment expansion, and burgeoning new intelligent products such as residential energy storage.

- (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 automotive, computing, consumer, industrial, infrastructure, medical, clean technology and mobile OEMs. Its net sales uplifted by 9.1% in the first quarter of 2023, and the gross profit margin went up 0.1% year-over-year. Although the whole consumer electronic market faced a downturn in the period amid persistent challenges, the strategy of fully-diversified product categories and geographical allocations put the company in a stronger position to face the headwinds. There was a decline in its consumer devices segments, but the strong demand in communication and cloud products as well as market share gains of lifestyle business (e.g. appliance, homecare and audio) drove sales up. Additionally, industrial, automotive, and healthcare-related products were also a driver for better performance driven by strong customer demand, project ramps in various end markets, incremental revenues from the acquisition of an assembly business. In terms of profitability, the increase in gross profit margin primarily resulted from the overall stronger customer demand across various end markets which allowed for improved fixed cost absorption.

- (iii) Peer 3 is a Shenzhen listed company whose main business is EMS service for consumer electronics, network communication product, smart wearable devices and automotive electronics. The company has aggressively built its capacities in India and Vietnam, directly competing with the Group. Even more, one of the Group's customer is proceeding to partner with the company for the establishment of manufacturing resources in Vietnam to develop the local market and the whole Southeast Asia region. This has led to the company's robust growth in 2022. However, due to weak demand in the consumer electronics market, which resulted in underutilised production capacity, the company reported a 35.7% decrease in revenue and a 2.1 percentage point decline in gross profit margin year-over-year in the first quarter of 2023. To mitigate the saturation in the consumer electronics market, the company is expanding its product portfolio to non-mobile phone business including smart wearables and new energy products, and moving into the automotive electronics segment, via a partnership with a leading vehicle electrification supplier.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Peers *(Continued)*

- (iv) Peer 4 is a Shenzhen listed company having several business segments including precise components, structural parts and module, charger, assembly, materials and automotive components. In the recent years, the company has restructured its organisation and aggressively developed the charger and assembly business in line with its core strategy — “vertical integration”. The company has achieved steady growth in its core businesses in 2022, such as precision components and structural parts for consumer electronics, while also expanding into new areas like AR/VR and laptops. Additionally, the company has experienced rapid revenue growth by entering emerging sectors like automotive and photovoltaics inverter. In the first quarter of 2023, revenue grew up by 2.12% even in the challenging environment. Besides, gross profit margin was increased by 3.9 percentage points thanks to a better product mix and effective cost control. In summary, due to lots of external influences, including global pandemic, political tensions, sluggish demand 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, healthcare electronics, etc.

Investments

On the basis that the value of each of the investments mentioned below as of 30 June 2023 is less than 5% of the Group’s total assets as at 30 June 2023, the Company does not consider any such investment as a significant investment for the purposes of the Listing Rules.

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.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Investments in Business relating to Nokia-branded Products *(Continued)*

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 30 June 2023. 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.

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 change its listing market to Hong Kong. Hence, CloudMinds has completed its recapitalisation process and several rounds of financing to enhance its future technology development and financial status starting from the end of 2020. In the second half year of 2022, CloudMinds has initiated its Pre-IPO round and currently in the preparation stage of IPO and monitoring the capital market to determine the best time to file for the listing application. Based on the recent performance and the forecast for the next three to five years and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in CloudMinds as at 30 June 2023. The Group took corresponding adjustment to the fair value change in this investment.

Augentix Inc, founded in 2014 in Taiwan, is a fabless multimedia SoC (System on Chip) design company offering proprietary algorithms products with efficient intelligent vision applications. Thus, since the product introduction, it has been widely used in the field of home IoT (Internet of

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Investments *(Continued)*

Things), professional IP camera, and consumer surveillance by leading brands around the globe. Furthermore, one of Augentix's customer has won the CES Innovation Award in 2020. Against the supply chain shortage in semiconductor industry and the global economic headwinds, Augentix still achieved a near 80% and 78% revenue growth in 2021 and 2022, and it still keep the pace to develop new products. Augentix's new series of AI SoC will provide broader edge computing applications and enrich the features for use in surveillance, home security and consumer IP camera. 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. In May, Augentix has successfully completed a new round of financing to reinforce its cash position and financial strength. Along with all the orders on hand, Augentix is expecting a notable growth this year. As at 30 June 2023, the Group's stake in Augentix is 1.68% 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 wirefree, powered-up world that is always on and always connected. Ossia is a fabless technology licensing company, and headquartered in Redmond, Washington. Ossia has secured over 200 global patents for wireless power technology and is establishing Cota RF wireless power at a distance as a global standard for wireless power transmission/transfer (WPT) systems and has announced several Cota-enabled products coming to market, including Cota Power Station, Cota Asset Tracker, Cota-powered IoT sensor, Cota Power Table, Cota Universal Base, ePaper RFID Tags, Cota-enabled security camera and so forth. Also, the Cota Universal Base was named a CES 2023 Innovation award winner allowing product manufactures to get wireless power products to market faster. This is Ossia's 6th CES Innovation award. In addition, Ossia's Cota Real Wireless Power was selected by TIME Magazine's Top Inventions of 2022. 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.

SoundHound is a global leader in conversational intelligence, offers voice AI solutions that let businesses offer incredible conversational experiences to their customers. Built on proprietary technology, SoundHound's voice AI delivers best-in-class speed and accuracy in numerous languages to product creators across automotive, TV, and IoT, and to customer service industries via groundbreaking AI-driven products like Smart Answering, Smart Ordering, and Dynamic Interaction™, a real-time, multimodal customer service interface. Along with

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Investments *(Continued)*

SoundHound Chat AI, a powerful voice assistant with integrated Generative AI, SoundHound powers millions of products and services, and processes billions of interactions each year for world class businesses. The Group participated in SoundHound's more than US\$100 million PIPE (Private Investment in Public Equity) round of financing for SoundHound with a US\$1 million investments together with a number of the other investors of this round included Oracle, Qatar First Bank, Koch Industries, MKaNN, VIZIO, HTC, Structural Capital, and so forth. After the completion of the PIPE round, SoundHound closed its SPAC merger transaction, becoming a NASDAQ listed company (NASDAQ: SOUN). The recent surge in demand of conversational AI is giving SoundHound a unique advantage and has made SoundHound the obvious partners for the companies looking for to embracing such technology. "In the first quarter we significantly strengthened our liquidity position while streamlining our costs. At the same time, our new innovations have driven positive customer reception that has meaningfully increased demand for our products and solutions", said Keyvan Mohajer, CEO and Co-Founder of SoundHound. SoundHound's first quarter revenue increased 56%, and its gross margin increased to 71%, an improvement of approximately 1,200 basis points compared to 59% last year. As the company continues to performing better, SoundHound also successfully secured two rounds of financings and raised over US\$150 million year to date to minimise the financial pressure and risk.

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 SEBI for the purpose of IPO. However, the Indian capital market has been experiencing significant volatility recently, and the current stock prices of many high-profile companies have fallen significantly, even below its issue price. In light of this, Snapdeal has carefully evaluated the situation and has made the decision to withdraw the DRHP in December 2022. With the current climate of investor funding dependence on financial performance for tech companies, Snapdeal announced that it has successfully achieved a remarkable 93%-94% YoY reduction in its financial year 2023 losses. "The environment has changed over past year, including investor funding. We pressed hard on accelerating our journey towards profitability. We are already profitable at unit economics level and are looking at overall profitability in a couple of months", Snapdeal CEO Himanshu Chakrawarti said.

The Group made a strategic investment in GFT Ventures I in March 2022. GFT Ventures I is a private fund with the initial target of US\$100 million, yet, due to the overwhelming demand, the fund was closed on over US\$120 million in committed capital.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Investments *(Continued)*

The fund focuses on series seed or A stage startups in several specific areas including mobility, digital health, robotics, automations and AI technology. With additional four startup investments, there are right fantastic companies are now in GFT's portfolio.

As the Group has been expanding in different industries in recent years, strategic investment is one of the movements to develop new businesses and diversify the dependency on mobile phone and single customer. The general partners of the fund have over 20 years experiences in venture capital, AI and semiconductor fields. Leveraged by their knowledge, the Group would have insights, more opportunities and exposures to the emerging technology companies.

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

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, which was automotive technology focused and wholly-owned by the Group. After closing, Mobile Drive Group has become a joint venture which is equally owned by the Group and Stellantis. The investment in Mobile Drive Group and the subsequent share of profits/losses of Mobile Drive Group will be accounted for by equity method in the Group's consolidated financial statements.

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.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Investments *(Continued)*

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 primarily focused on the smart home, smart healthcare, AR, and robotics fields, including a smart home company that provides smart door locks and other IoT products, a technology company that provides educational robots, a company that provides medical devices for people with myopia, and a company that provides AR glasses and components. 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 30 June 2023, the fair value of the Group’s equity investments designated as FVTOCI was US\$64.4 million, which represented 1.4% of the Group’s total assets.

Other Investment-related Matters

In such a dynamic and volatile equity investment market, the Group’s investment team is invariably cautious, and therefore the team will continue to monitor the performance and financial position, cash flow, burn rate and fundraising 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. The investment team maintains a close relationship with the respective management teams of those investees, and conducts periodical in-house analyses. Based on the result of the analyses, the investment team will consider hedging the risk exposure should the need arise. The Group is not currently aware of any potential cause which would lead to any substantial loss arising from the change in the fair value of the Group’s investments in certain listed companies during the current period. 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. The 5G boom, coupled with the ACES trends (autonomous driving, connected vehicles, the electrification of the powertrain, and shared mobility), is driving rapid change in the automotive industry. McKinsey predicts that the market for automotive E/E (electrical and electronic components) and software will grow at a CAGR of 7% to reach US\$469 billion by 2030.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Investment-related Matters *(Continued)*

According to Statista, the global healthcare market will experience organic growth in the coming years due to the aging population and rising health awareness and as labour shortage challenges escalate in advanced economies, a remarkable tenfold expansion of the AI driven robot market from 2021 to 2030 is expected. 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 AI robots, 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. In addition, to fulfill the commitment of achieving Net Zero in 2050, the Group is taking a proactive approach to put green investing as one of the top priorities. By engaging with companies that are devoted to developing various green and eco-friendly technologies and products, the Group will focus on discovering the related industrial investment opportunities in operating efficiency enhancement, low-emission energy sources, and low-carbon transition, helping communities, enterprise, countries, and the Group itself to mitigate climate change and promote sustainability.

Among the characteristics that the Group looks for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations and new business including IoV; favourable long-term growth prospects; and cultural fit with the Group. The Group has an experienced investment team and will continue to hire talents and has prioritised investments of comparatively low risks and with long-term growth prospect which may take years before the investment can be realised. As a whole, the Group will be cautious on expanding its investment portfolio to create synergies but at the same time to cope with the possible uncertain economic environment and volatility of the capital market.

Since 31 December 2021, the Mobile Drive Group previously wholly-owned by the Group has become a joint venture which is 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 joint venture(s). 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.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

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 and tax departments of the Group, 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 78 of the Company's 2022 annual report as issued and published on 13 April 2023. 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.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Compliance with Relevant Laws and Regulations *(Continued)*

PRC *(Continued)*

In relation to the PRC value-added tax (VAT), please refer to the background and previous developments as described in page 78 of the Company's 2022 annual report as issued and published on 13 April 2023. The draft Value-Added Tax Law (consultation draft) (Draft VAT Law) is still pending the approval of the National People's Congress. At this stage, the Group's PRC subsidiaries will continue to monitor the legislation process of the VAT regime and assess the potential impacts of the Draft VAT Law on their operations in anticipation of its enactment.

In relation to the draft revisions to the PRC Company Law for public consultation (Draft Company Law Revisions), please refer to the background and previous developments as described in page 79 of the Company's 2022 annual report as issued and published on 13 April 2023. 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 79 of the Company's 2022 annual report as issued and published on 13 April 2023. In particular, the governance structures and 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

During the current period, the newly-promulgated Indian laws and regulations did not have a significant impact on the Group's Indian subsidiaries and their operations.

Vietnam

Decree No. 44/2023/ND-CP dated 30 June 2023 took effect from 1 July 2023 on reduction of VAT from 10% to 8% which applied to the period from 1 July 2023 to 31 December 2023 and to most of the goods and services in the market. This Decree has impacted positively to the Group's Vietnamese subsidiaries and their operations where during the second half of 2023, (1) the subsidiaries could save the operating cost

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Compliance with Relevant Laws and Regulations *(Continued)*

Vietnam *(Continued)*

of 2% of VAT for the goods and services consumed and to be consumed in the course of their operating activities; and (2) the VAT reduction could help to boost an increase in the demand of the subsidiaries' customers for the subsidiaries' products and services when their customers could save the cost of 2% of VAT.

Decree No. 13/2023/ND-CP dated 17 April 2023 took effect from 1 July 2023 on protection of personal data. This Decree has impacted on the operations of the Group's Vietnamese subsidiaries, presumably implying additional costs of legal/regulatory compliance. In response, the subsidiaries must implement and maintain proper methods for the storage and processing of personal data of all their key stakeholders (including their employees, candidates, suppliers, customers and other business associates) in compliance with the requirements laid down by this Decree to avoid potential breach and claim for penalty or compensation or even dispute/litigation. In particular, the subsidiaries should at the same time classify different kinds of personal data and implement and maintain methods for properly storing and processing the personal data with proper documentation in the form of a commitment or mutual agreement with provisions governing the collection, use, storage and processing of personal data between each Vietnamese subsidiary and the individual to which the personal data relate. In relation to the subsidiaries' external stakeholders namely their suppliers, customers and other business associates, on top of the foregoing, the subsidiaries shall (before entering into any business relationship with such external stakeholder) require such external stakeholder to enter into a non-disclosure agreement which shall provide for (among others) the scope of confidential information (including personal data) conveyed by either party, the provisions governing the storage and processing of such confidential information (including personal data) and the remedies for either party's breach of such provisions.

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.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Compliance with Relevant Laws and Regulations *(Continued)*

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 (ESG) aspects, please refer to the Company's separate 2022 ESG report as issued and published on 13 April 2023.

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 borrowing capacity and makes necessary adjustments for changes in money market and economic conditions and market risks 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.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources *(Continued)*

As at 30 June 2023, the Group had a cash balance of US\$1,241 million (31 December 2022: US\$1,825 million). Free cash flow, representing the net cash used in operating activities of US\$629 million (31 December 2022: net cash from operating activities of US\$409 million) minus capital expenditure of US\$35 million (31 December 2022: US\$143 million), was US\$664 million outflows (31 December 2022: US\$266 million inflows). The Group has abundant cash to finance its operations and investments. The Group's gearing ratio, expressed as a percentage of interest-bearing external borrowings of US\$711 million (31 December 2022: US\$676 million) over total assets of US\$4,669 million (31 December 2022: US\$5,510 million), was 15.23% (31 December 2022: 12.27%). All of the external borrowings were denominated in USD, RMB and INR (31 December 2022: USD, RMB 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 2.50% to 8.60% (31 December 2022: fixed rate ranging from 2.20% to 5.41%) per annum, with an original maturity of one to seven months (31 December 2022: one to seven months).

As at 30 June 2023, the Group's cash and cash equivalents were mainly held in USD, RMB and INR.

Net cash used in operating activities during the current period was US\$629 million.

Net cash used in investing activities during the current period was US\$38 million, of which, mainly, US\$35 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\$23 million represented net cash outflow from bank deposits and US\$20 million represented proceeds from disposal of property, plant and equipment and investment properties.

Net cash from financing activities during the current period was US\$108 million, primarily due to net increase in bank borrowings of US\$132 million, payments on repurchase of ordinary shares of US\$1 million, interest paid on bank borrowings of US\$22 million and repayment of lease liabilities of US\$1 million.

Exposures to Currency Risks and Related Hedges

As inflation has reached a 40-year high in U.S., the FED continuously imposed interest rate hikes in order to counter the negative impacts led by inflation. As the result, USD has been strengthened against all other major currencies around the world. In order to mitigate foreign exchange risks, the Group actively utilised both natural hedge technique and financial methods to manage its foreign currency exposures including entering into the short-term forward foreign exchange contracts (usually with tenors of less than four months) from time to time to hedge the currency risks resulting from its operations and investments denominated in foreign currencies.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Capital Commitments

As at 30 June 2023, the capital commitments of the Group were US\$5.9 million (31 December 2022: US\$6.3 million). Usually, the capital commitments will be funded by cash generated from operations.

Pledge/Charge of Assets

There was no pledge nor charge of the Group's assets as at 30 June 2023 and 31 December 2022.

Contingent Liability

There was no material contingent liability for the Group as at 30 June 2023 and 31 December 2022.

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. OEMs are often able to deliver accelerated production start-ups and achieve high efficiencies in bringing new products to production and scale production more rapidly for changing markets and to position themselves in global locations that serve the leading world markets. With increasingly shorter product life cycles, these key OEMs services allow new products to be sold in the marketplace in an accelerated time frame. Therefore, companies are increasingly looking to reduce their investment in inventory, plant and machine and equipment used in manufacturing and prioritising capital investments in other activities such as sales and marketing and distribution and channel management and R&D and channel. This strategic shift in capital and resources deployment has contributed to growing demand for and interest in outsourcing to external OEMs who can reduce customers' overall product lifecycle and operating costs. 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 in the electronics industry, the entry barrier for OEM industry is very low and its profit margin is limited, so when the gross margin of the market declines, only those with a large scale of production can

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Market and OEM Industry Review and Challenges to the Group *(Continued)*

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 in the industry has 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.

Macroeconomic Headwinds

2023 promises to be one of the most challenging, uncertain, and global unrest years in decades, the compounding impacts put additional upward pressure on prices and caused high inflation, which led most central banks around the world continue to raise interest rates to fight inflation. To cut inflation to a rate consistent with the targets, the FED, the central bank of the U.S., has enacted ten interest rate hikes since 2022, pushing benchmark borrowing rates to a range of 5.00% to 5.25%, which marked the highest level since 2007 Great Recession. In the meeting in June 2023, the FED official still indicated to more rate hikes ahead, but at a slower pace and with no reductions until 2024. As the global economy keeps destabilising by many factors, most institutions have lowered their global growth forecasts due to the high inflation. The Organisation for Economic Cooperation and Development (OECD)'s Economic Outlook released in June 2023 has released the Global GDP growth in 2023 is projected to be 2.7%, the lowest annual rate since the 2008–2009 global financial crisis, with the exception of the 2020 pandemic period. Likewise, World Bank has cut its 2024 global growth forecast from 2.7% to 2.4% in its latest Global Economic Prospects report and 2023 is set to grow 2.7% this year, up from its previous forecast of 2.6% in March, yet still the lowest annual rate since the global financial crisis with the exception of the pandemic-hit year of 2020.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Smartphone Market Outlook

Regarding the outlook of the smartphone market, given the ongoing macroeconomic headwinds coupled with their overall impact on demand, the market is expected to continue facing challenges and the real market recovery is not expected to occur until 2024 according to the latest report from IDC published on 31 May 2023. IDC has revised down its forecast for smartphone shipments from 1.1% decline to 3.2% decline to a total volume of 1.17 billion in 2023 and expects a 6.0% year-on-year growth in 2024. In spite of the weak demand amid macroeconomic headwinds, 5G networks are building out globally, leading 5G devices to account for 62% of smartphone shipments worldwide in 2023, and rise to 84% by 2027, according to IDC data. Correspondingly, carriers are also concentrating themselves on facilitating the adoption of 5G networks. According to the Ericsson Mobility Report published in June 2023, 5G telecom subscriptions reached 1.1 billion, adding 125 million during the first quarter of 2023 and set to reach 1.5 billion globally by the end of 2023 and forecast to reach 4.6 billion by the end of 2028, accounting for more than 50% of total mobile subscriptions. Compared to the rollout of 4G, 5G subscription uptake is faster, with the 1 billion milestone reached 2 years sooner. This is due to the timely availability of devices from several vendors, the faster decline in the price of 5G devices, and China's large and early 5G deployments.

In terms of the largest smartphone market, China, as per the IDC report released on 27 April 2023, the analyst stated the end of zero-COVID policy in December 2022 did not boost the first quarter smartphone shipments in 2023 and resulted a continuous double digits decline since the first quarter of 2022. Moreover, this year's China 618 (18 June) Shopping Festival is disappointing. It was highly anticipated to see an increase in consumer spending after China's reopen from COVID, yet the actual sales between 1 June and 7 June in the smart devices market didn't meet expectations. Smartphone sales decreased 6.5% as consumers are asking both "high quality" and "high value" and become more price sensitive while they are making the purchase this year, according to the IDC report published on 19 June 2023.

Regarding the Indian smartphone market, the major challenges faced across last year will continue to have an impact on 2023, IDC estimated that Indian domestic smartphone shipments will face a flat growth this year and reported a decline of 16% YoY (year-over-year), and the lowest first-quarter shipments in four years in 2023 due to weak consumer demand and high stocking in second half of last year. In recent years, the Indian Government has been striving to boost the development of the domestic electronics industry through initiatives including (a) PLI Scheme (at a value of INR2,000 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 (EMC 2.0) Scheme (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 different percentages of the realised FOB (free-on-board)). In addition to mobile phones, emerging technologies such as IoT, AI, 5G and the use of robotics and analytics in the industrial and strategic electronics segment, have led to the overall development of numerous electronic products. Other than consumer electric goods, the EV market is also gaining attention as it relies on the electronic sector for a range of components.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Supply Chain Issues

Three years after the COVID-19 pandemic, the global supply chain is healing as driven by both easing of supply chain congestion and decreasing consumer demand due to inflation. In July 2023, the global container freight rate index stood at almost US\$1,300, compared with the record price of nearly US\$10,400 in September 2021. As for this year, the Group witnessed the global supply chain gradually got back to a normal level barring any more unexpected disruptions.

Geopolitical Tensions

The U.S.-China economic war and the resulting restrictions have intensified calls in the U.S. and other countries for reducing dependence on China, leading many multinational corporations to move out of China in recent years. Few days after China's announcement to impose restrictions on exporting two metals used to make semiconductors and other electronics, the U.S. Treasury secretary Janet L. Yellen made her visit to China in 9 July 2023. Ms. Yellen met with China's new economic policy leaders and toned-down Washington's talk of "decoupling". "There is an important distinction between decoupling, on the one hand, and on the other hand, diversifying critical supply chains or taking targeted national security actions," Yellen said and reiterated that the U.S. is not seeking to decouple from China, which she said would be "disastrous for both countries and destabilizing for the world" and "virtually impossible to undertake." Even Ms. Yellen said no final decision has been made to limit outbound investments by U.S. companies in China but The Wall Street Journal reported Biden administration is preparing new rules that could restrict U.S. investment in semiconductors, artificial intelligence and quantum computing in China. Even both Beijing and Washington indicate high-level discussions will continue, with the increasing bipartisan support in the U.S. for a tougher approach to China, the tension is expected to continue and potentially lead to an intensification of the economic war and sanctions on specific sectors or products.

Manufacturing Diversification

To eliminate the mentioned adverse effects including the risk of China's pandemic policy and geopolitical tensions, global manufacturers are accelerating their steps to diversify their capacity globally. According to Counterpoint Research, the global manufacturing industry chain is relocating to specific areas. Among those areas, Vietnam and India are becoming primary targets for manufacturing giants to extend and explore due to lower labour costs, potential local demand, and attractive industrial policies. Additionally, driven by high tariff policies on finished goods imports, Indonesia and Brazil are also being regarded as ideal places for manufacturers to diversify. Leading smartphone and PC OEMs have built their own local factories or partnered with those that have local production capabilities. Morgan Stanley shared similar points, stating that Vietnam's huge public investment in education and FDI-friendly policy has successfully made the electronics manufacturing industry become an influential part of the economy. In fact, Vietnam's electronics industry has experienced rapid

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Manufacturing Diversification *(Continued)*

growth, accounted for 18% of the total industrial output value and contributed over 30% to the overall export revenue in 2022. In the first quarter of 2023, even inflation damaged consumer demand globally, Vietnam's economy still grew by 3.28%, according to Vietnam's General Statistics Office. Despite the slowdown in growth, Vietnam has shown resilience compared to other countries and its growing middle class and robust economic growth are driving demand for consumer goods. By 2030, Morgan Stanley predicts that driven by an additional 36 million middle class consumers, Vietnam is expected to become one of the top ten largest consumer markets in the world, surpassing Germany and the United Kingdom. This aligns with the goals of global manufacturers seeking capacity diversification, as Vietnam offers attractive industrial policies and a strong local demand. Similarly, the Indian Government is working to expand infrastructure investment and provide land to help manufacturers build factories. Tax benefits, investment incentives, and infrastructure spending are driving manufacturers to increase their capital investments in India, positioning it to become a global factory. As a result, India's economic growth rate for the fiscal year ending in March 2023 to reach 7.2%, slightly lower than the previous year's 9.1%, this indicates that the country's post-pandemic economic recovery remains on track and placed India among the top-performing major economies globally.

Product Perspectives

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. IDC China also indicates that there has been an excess of smartphone performance currently and it is unlikely to have significant innovation breakthroughs in the short term. As a result, self-developed chips have become one of the important strategies for major smartphone vendors to establish their competitive advantage. In the past year, mainstream smartphone brands have launched several products with self-developed chips including Image Signal Processing (ISP), Neural Processing Unit (NPU), and System on Chip (SOC). However, a major Chinese mobile phone brand has announced its withdrawal from the IC design business, and thousands of Chinese IC design companies have closed due to the high cost of self-developing chips and the lack of recovery in the mobile phone market in the first half of this year. In order to explore alternative ways to enhance product competitiveness, mainstream vendors have also focused on software optimisation and upgrading, working to provide users with a smoother, more convenient, intelligent, interconnected, and interactive experience across different scenes (e.g. driving, riding, extreme sports, meetings, Web3, etc.) and devices (e.g. smartphones, earphones, tablets, laptops, etc.). Additionally, in light of the environmental protection issue, some smartphone brands have adopted reparability and sustainability as key concepts in their products, using responsibly mined, recycled materials, and recycled plastics as main materials for components, body structure, and packaging. Last but not least, IDC China also believes that foldable phones with newly-shaped designs will continue to see rapid growth, with an estimated 50% increase in shipment volume in 2023.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Privacy Issues

Ericsson found out that along with the advent of 5G networks, the amount of generated data has exponentially increased, 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. 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 implemented major privacy protections in the recent updates, including turning off IDFA (Identifier for advertisers) by default and introducing the Privacy Relay feature in iCloud, which encrypts all traffic and routes leaving a user's device. The company also released the "App Privacy Report" and "Digital Legacy" programs, the former lets users realise the frequency of apps are accessing permissions-restricted information, the latter allows users to authorise specific individuals to access their digital data after they pass away. Apple has also introduced the Safety Check feature to help users who may be in abusive relationships or are victims of intimate partner violence to protect their privacy. Google has also announced various privacy features across its products and released a major software update for its Android system with new privacy features to enhance user trust in apps. Google's Protected Computing plan will continue to remove personally identifying information from user account data and strengthen encryption on operating systems and devices. Additionally, Google further introduced the Google One VPN feature to provide additional security and privacy for online connectivity without sacrificing performance. Overall, it is clear that privacy and online security are of utmost importance as more people shift their daily activities to online platforms.

Keen Competition and Margin Erosion Pressure

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 in the market. The Group also faces competition from the manufacturing operations of its current and potential customers, which are constantly evaluating the advantages of manufacturing products in-house against outsourcing, OEM against ODM. All of these developments have caused 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 and decisive business and operational decisions, and carrying out restructuring and downsizing actions to reduce blood bleeding. 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

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Keen Competition and Margin Erosion Pressure *(Continued)*

margin businesses inclusive of IoT devices, 5G applications and automotive software and hardware. The Group's future business plan has been adjusted and will focus on new customer development and revenue growth and continually monitor the market competition conditions to respond accordingly.

R&D Competence Building

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 Artificial Intelligence of Things (AIoT), 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.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

R&D Competence Building *(Continued)*

The Group's design centers are in close proximity to leading global clients and new technology zones. 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 support, 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 serves 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

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

R&D Competence Building *(Continued)*

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 has 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.

Exploring New Opportunities

As the mobile phone market has become a mature market with less gained traction, the Group continually seeks investment and business opportunities in other industries with huge potentials, including automotive, healthcare and so forth. On the one hand, along with the rise 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. According to CPCA (China Passenger Cars Association), the sales unit of China passenger cars has reached 9.524 million in the first half of 2023, a 2.7% increase over same period of last year, and new energy vehicle hit a record high of 3.086 million, a 37% growth and accounted for more than 32% of the total passenger car market shares. 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, epidemic management, infection treatment and the aging population also became the driving force of the innovation and transformation in medical technology. 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 labour 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 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 required for this industry upgrade. Innovations sparking additional demand is highly possible; thus, the technology knowledge and skill are key factors to keep us remain competitive.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Exploring New Opportunities *(Continued)*

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in 2023. In 2020, the Group has carried out large scale rightsizing and restructuring to eliminate redundant assets and become leaner and has continued to carry out the rationalisation works which improved utilisation and realised cost savings. The Group has implemented and maintained sound and effective systems of internal control and ERM 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 2022 corporate governance report, which forms part of the Company’s 2022 annual report as issued and published on 13 April 2023.

Key Risks Faced in the First Half of 2023

Regarding key risks faced in the first half of 2023, please refer to the major risk items below.

Industry Risks

Risks Pertaining to the Handset Business and Poor Demand

As explained, the 2023 handset market is a demand-constrained market. In above section of geographical segment, we explained that demand in all segments was very weak. As the global economy continues to feel the effects of post-pandemic inflation and the economic fallout of Russia’s invasion of Ukraine, mobile phone manufacturers have a difficult period in 2023 after a challenging year in 2022. The global economy has remained in a fragile state in 2023, with the mounting cost of living stretching consumer’s budgets, the impact of inflation lingering and the slow pace of economic growth continuing to subdue demand for mobile phone worldwide. We expect consumers to forgo replacement purchases in 2023, and in developing markets many people still won’t be able to afford their first mobile phone. Volatility in the Chinese market has continued to suppress global market volumes and demand in China is set to remain subdued as consumers ease back on how regularly they upgrade their smartphones. Surging youth unemployment, which is largely a result of China’s economic slowdown, has remained a persistent area of pain. The government’s now-defunct draconian COVID-19 policy in the past 3 years hammered consumer spending and hit small business hard. A regulatory crackdown on internet, real estate and education companies also hurt the private sector, which provides more than 80% of jobs in China.

The existence of a high number of market participants in OEM market due to low entrance barrier in all areas and the highly cost-competitiveness of peers in China and India results in competitive pricing and aggressive pricing is a common business dynamic and our customers are extremely price sensitive, which reduces market revenue potential and pricing pressure continued to be high and it is hard to win new business and we may have to offer prices as low as some of our competitors and it is difficult to maintain historical or target margins. Sometimes, competitors provide EMS services at prices we are unable or unwilling to offer and the Group has to control costs and increase cost competitiveness. To tackle these above-mentioned challenges, the Group has to control BOM (Bill of Materials) costs and manufacturing costs and improve efficiency, productivity and yields, and counter gross margin erosion pressure while continuing to monitor the impact of factors affecting the business of

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Key Risks Faced in the First Half of 2023 *(Continued)*

Industry Risks *(Continued)*

customers and their financial health. As component prices are on an average, the 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 a multi-ODM strategy and the Group now only manufactures feature phones for HMD. To control the credit risk, the Group ceased to accept new feature phone programs from the mid of 2022. With all those negative factors such as unfavourable product mix, increasing pricing pressure, low utilization, 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. The mix of products ordered by and shipped to major customers will affect the Group's gross margin as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services and higher concentrations of lower margin programs affected overall gross margin. Some customers may consider insourcing previously outsourced business or some of the future productions so as to optimise their capacity and asset utilisation and save costs. One major customer has found new manufacturing partners in China and India and the sales to this customer dropped dramatically during current period and it is expected that the shipment to this major customer will continue to decline quite significantly in the second half of 2023. Because of the uncertainty drop in demand, instead of placing orders of large quantity, customers place more frequent orders of smaller quantity and production schedules from our customers in terms of volume and mix of products or services may fluctuate and this makes it very difficult to forecast order book. With shorter demand forward visibility, the Company has to control and optimise inventory level and working capital and material open purchase order risk in this tough period of time. Because of keen competition and surplus capacity in the market and the Group 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 has continued into 2023 with an arduous recovery path ahead. As a whole, the challenging conditions that the Group has faced since late 2017 have continued into the first half of 2023 and will continue into the second half of 2023 and there is continued pressure on the Group's gross margins generally.

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. During the period, we carried out a large scale redundancy action in China and it is expected that we will carry out rightsizing activities in some overseas sites in the second half of 2023. The Group will have to incur higher operating expenses during periods of transitioning programs to competitors. Any

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Key Risks Faced in the First Half of 2023 *(Continued)*

Industry Risks *(Continued)*

such restructuring or downsizing activities, if undertaken at all, could adversely impact the Group's operating and financial performance in the short to medium terms, and may require the Group to further adjust its strategy and operations. As a whole, 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. To compete effectively, we must continue to provide technologically advanced manufacturing services, maintain strict quality standards, respond flexibly and rapidly to customers' design and schedule changes, deliver products globally on a reliable basis at competitive prices and seek to create enhanced relationships with our customers with our advanced technology and engineering solutions. This entails meeting stringent delivery timelines and adhering to regulatory and contractual obligations. With our robust R&D capabilities and strong manufacturing prowess, we are fully prepared to navigate the competitive landscape. Our engineers are actively acquiring quality standard certifications, participating in comprehensive training programs, and deepening their understanding of emerging fields. In the long term, as overall demand may increase when geo-political tensions vanish, market participants will be able to expand through technological investments. Thus, the impact will be lower in the mid to long terms.

Operational Risks

Reliance on Key Customers and Credit Risks and Increase in Allowance for Expected Credit Loss

We are dependent on the success of our customers and the general economy and markets in which they operate. When our customers or the markets in which they operate experience declines or grow at a significantly slower pace than anticipated, we may be adversely affected. We are dependent on the continued growth, viability and financial stability of our customers. Worldwide shipments of mobile phones are set to decline in 2023, from an already weak year in 2022, as the rising cost of living suppresses demand. The Group's five largest customers account for 88.54% 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 with surplus manufacturing capacity and shrinking demand and accumulated inventory. Because of the intense competition among our customers and their competitors, our customers have to reduce prices for their products and increase the pricing pressure placed on us. The Group relies on a relatively small number of customers for a substantial portion of our sales, and our ability to replace declining sales from end-of-life programs and customer disengagements with new business wins and declines in sales to these customers could reduce our net sales. Please refer to section headed "Key Relationships with Customers, Suppliers and Employees" and "Geographical Segments" 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 key established customers with whom the Group has strong established working and business relationships.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Key Risks Faced in the First Half of 2023 *(Continued)*

Operational Risks *(Continued)*

Reliance on Key Customers and Credit Risks and Increase in Allowance for Expected Credit Loss *(Continued)*

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. As market is volatile and competitive and slowdown of general economy, FED balance sheet tightening, soaring inflation and interest rate hikes and credit and market conditions and increasing cost of borrowing could have impact on the businesses and operating performance and access to debt and equity financing and liquidity and cash conversion cycle and cash position and financial condition of some of our customers, including any impact on their ability to meet their contractual obligations and trade account payables. Such financial difficulties, if experienced by one or more of our customers, may significantly affect the ability of these customers to make timely payment or to purchase inventory required to support their businesses. Likewise, we remain in close contact with our customers to understand the impact of all those unfavourable factors on their businesses and the resulting potential impact on our business. The Group kept monitoring credit position and late payments of customers and collections from customers and assessed default risks and going concern risk of customers in financial distress and reviewed adequacy of allowance for expected credit loss. In particular, the Group's finance team continued to monitor closely business performance, cash position and liquidity, late payments, financial stability, unsuccessful fund-raising of HMD and its credit status and going-concern risk and take necessary actions to mitigate the risks. The Group had some small customers and the exposure to these financially troubled customers might adversely affect our financial results too. Especially due to the economic slowdown, some of the small customers might 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 and condition could be affected and there was need to increase expected credit loss allowance, days of our trade receivables and working capital requirements due to higher inventory levels and amount of write-off of inventory. Given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group had been deferred, management expected the default rate would increase accordingly due to the tough economic environment and lingering Ukraine warfare. After making the assessment, management confirmed that the risk had increased dramatically and ultimately HMD might not be able to meet obligations as they came due based on what's known and knowable. For customer with increasing credit risk, the management had appointed an independent valuer to assist the estimation of the expected credit loss allowance provision of the trade receivables due from such customer by determining an appropriate probability of default rate, forward looking adjustments and estimated loss given default rate. The Group uses provision matrix to calculate expected credit loss allowances for trade receivables which are not credit-impaired or with increasing credit risk. The provision matrix is based on debtor's aging of groups of various debtors that have similar loss patterns.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Key Risks Faced in the First Half of 2023 *(Continued)*

Operational Risks *(Continued)*

Reliance on Key Customers and Credit Risks and Increase in Allowance for Expected Credit Loss *(Continued)*

The provision rate is based on the Group's historical observed default rates taking into consideration of forward-looking information that is reasonable and supportable and available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In light of high uncertainties of global economy and handset market and heightened geo-political tension, the Group reassessed the expected credit loss allowances by increasing the expected credit loss percentage for overdue trade receivables during the current period.

The gross margin of system assembly and casing business eroded seriously. The Group has been keen to develop new customers overseas and manufacture products other than mobile phones. Finally, the core business of the U.S. Internet customer is not in the 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 to the mobile phone business. Finally, our customers may experience dramatic market share shifts in demand which may cause them to lose market share or pricing power or exit businesses.

End market demand slowed down and product life cycle is shortened and preferences by end customers may change, in order to reduce risk, most of our customers do not commit to firm production schedules for more than one quarter and we continue to experience reduced lead-times in customer orders and they may cancel their orders, change order quantities, delay production and shipment or continually evaluating the merits of manufacturing products internally against the advantages of outsourcing and change their sourcing. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products and order fluctuations impede our ability to forecast the level of customer orders with certainty and makes it difficult to schedule production and maximise utilisation of manufacturing capacity and plan material requirements and control inventory and may lead to the write downs of excess or obsolete inventory that we may not be able to sell to customers or third parties. In that regard, we must make significant decisions, including determining the levels and volume of business and net income and affordable credit and 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 and develop in some countries. Should any of our larger customers in this market fail to effectively compete with their competitors, they could reduce their orders to us or experience liquidity difficulties. Finally, there may be changes to existing business models of buy-and-sell to consignment and top line and gross margin and net margin will change accordingly as for the consignment model, we can only recognise the "Processing Income" and not sales income in the statement of profit or loss as we do not bear any inventory risk and financial risk. 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

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Key Risks Faced in the First Half of 2023 *(Continued)*

Operational Risks *(Continued)*

Reliance on Key Customers and Credit Risks and Increase in Allowance for Expected Credit Loss *(Continued)*

customer and records processing fee income in its financial statements. For ODM programs, we have been requested by customers to incur upfront expenses like consumables and tooling in order to meet the anticipated demand and we can only bill the customers when mass production starts. Any delays in the receipt of these money will affect the booking of other income. Also, we may not be able to pass those unanticipated costs in the ramping-up process through to our customers or otherwise offset them. As many of our costs and overheads and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for a product that represents a significant portion of revenue, will reduce the contribution margin and can harm our gross profit margins.

To reduce customer concentration risk and to increase capacity utilisation, the Group has put a lot of resources and effort into developing new customers. The building up of business relationships with new customers may present more risks than with existing customers as products of new customers are new to the market and it is not certain whether their untested new products can gain commercial acceptance by the market with looming demand and this make it harder for us to anticipate requirements and plan purchase commitments and inventory levels in line with anticipated demand than with established customers. Ramping new programs may require months before production starts, and often requires significant up-front investments and start-up costs relating to new tooling and processes and personnel and increased working capital and our design activities often require the purchase of inventory for initial production runs before we have a firm purchase commitment from a customer and we may not be able to recover from the new customers. These are particularly evident in the early stages of the life cycle of new products. Our customers may significantly change these programs, or even cancel them altogether, due to decreases in their end-market demand or in the actual or anticipated success of their products in the marketplace. As the financial condition of these new customers may not be very strong, the tightening of financing for start-up customers, together with many start-up customers' lack of prior operations and unproven product markets increase our credit risk and their cash position can be affected if their products cannot sell well. Sometimes we have to offer longer payment terms and the credit risk can be higher. But we will perform rigid credit worthiness assessment and business model evaluation before engaging with a new customer and control credit amount in the very beginning. We will also buy credit insurance to give adequate cover to potential financial exposure. Our goal is to ensure that our terms of engagement appropriately reflect anticipated costs, risks and rewards.

Financial Risks

Foreign Exchange Risks

Please refer to the section of "Financial Performance" for the details on how to mitigate such risks. Money market is volatile and the figures for 2023 can differ significantly from historical figures.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Key Risks Faced in the First Half of 2023 *(Continued)*

Financial Risks *(Continued)*

Soaring Inflation and Interest Rate Hike

2022 has brought many changes in economic conditions, with both interest rates and inflation rising. The trading environment was already feeling the pressure from demand rising as COVID-19 restrictions eased, coupled with supply weakened by large parts of the economy having been shut down for so long. Catalysts such as Russia's invasion of Ukraine have intensified this pressure and caused the prices of energy, food and other goods to rise sharply, contributing to a hike in inflation and triggering a cost-of-living crisis. Inflation increased the costs of inputs, reduced the value of wages and made everything less affordable. Many businesses noticed higher costs for inputs including energy and fuel, which they might have had to pass onto consumers. Inflation had a negative impact across the whole economy and drove up the pricing of, manufacturing and distribution and business services, much higher than is ideal, which then trickled down the business supply chain. Interest rates were historically low during the pandemic. But from May 2022, the FED increased interest rates to fight inflation, despite fears of a banking crisis. The aim, quite simply, is to temper demand and ease/curb inflationary pressures by slowing economic activity and lowering demand for goods or services and deter people from borrowing and spending and encourage them to save as people with savings will see a 'wealth effect' of higher returns, and deter businesses, which will face higher borrowing costs, from investing and hire more people. Lastly, even if businesses are not impacted directly or might be relatively insulated, they may still experience second-hand effects due to the increased prices of goods from suppliers, and will be forced to increase their own prices, and/or face supply disruptions. This could push inflation even higher, further eroding sales. As a whole, we are seeing increased costs, reduced consumer spending, and a tighter labour market and higher cost of living and a stronger U.S. dollar, which dampened demand for smartphones.

In 2023, the FED keeps hiking interest rates and approved its first rate hike of 2023 in February, raising the target federal funds rate to between 4.50% and 4.75%. This was followed by subsequent rate hikes of 0.25% on 2 March and 3 May, bringing the current range to between 5.00% and 5.25%. The Federal Open Market Committee (FOMC) met again in June and neither raised nor lowered rates during that meeting. However, FED chairman Jerome Powell strongly suggested that at least two more rate increases are likely before the end of 2023 and it is anticipated that meaningful rate cuts are more than a year away, so we need to get used to the period of higher interest rates.

Technology 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 a 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 a

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Key Risks Faced in the First Half of 2023 *(Continued)*

Technology Risks *(Continued)*

Cyber Risk Controls (Continued)

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.

As explained, the Group's future business plan would focus on remaining lean and agile and asset light and continually monitor the external macro environment and market competition conditions and internal operational excellence to respond accordingly and continue to devote resources to enhance R&D and business development capabilities. The Group will continue to face all kinds of risks in 2023 and there is a continuing need to dispose of idle assets and carry out restructuring works which will 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 the business of our customers and suppliers. 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 in China after uplifting of zero-COVID control measures and global economic slowdown and Ukraine warfare and inflation and strong USD 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, 2023 risk factors and opportunities include:

Risks and Opportunities of 2023

All of the risks in the first half of 2023 mentioned above will continue into the second half of 2023. The Group's business, financial condition and results of operations are subject to various business risks and uncertainties. The factors set out below are those that the Group believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. There may be other risks in addition to those shown below, which are not known to the Group, or which may not be material now but could turn out to be material in the future. When 2022 came to an end, we witnessed how global markets and economies had fared through a turbulent year of steep interest rate rises and surging inflation. 2023 is another challenging year for the global economy, as core inflation remains elevated, and the response of central banks further strains economic activities. Inflation, recovery of China's economy after uplifting of zero-COVID control protocols and

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

geopolitical concerns dominated the agenda for 2023, negatively affecting both consumer demand and brands' operating costs. Post-pandemic consumer behaviour has changed, and consumers were affected differently by the potential economic turbulence in 2023 and the global economic gloom is increasingly reflected in consumers' shopping habits, and the handset industry is becoming more unpredictable in the period ahead and the industry needs to adapt to the new reality. Depending on factors such as disposable income level, we foresee that the differences between the shopping habits of low- and high-income households will become more pronounced, as cost-conscious customers are likely to postpone or curtail discretionary purchases, with affluent consumers less heavily affected by inflation. Bereft by global risks and ongoing uncertainties and evolving situation which are impacting the timing and path of recovery in each market, we need to pay careful attention to macroeconomic and political issues in the regions/geographical segments where we produce and sell our products and we also need to develop risk mitigation strategies that can be implemented quickly.

Major risks include:

(I) Demand Side

- (i) Weak Demand and Risk of Sales Reduction to Different Customers and Need of Continuous Restructuring Activities*

As mentioned in above sections, in 2022, as capacity and production of suppliers was ramped up, situation changed and supply chain constraints pulling down on the market eased and were no longer the most pressing issue as component orders were cut quickly and suppliers started to be concerned about oversupply and inventory accumulation and the industry shifted to a demand-constrained market and end customers became even more price-sensitive. Many customers reigned in their budgets after months of discretionary spending. Leading brands in China suffered more as China's domestic market contracted more than the rest of the world amidst a rapid deterioration of China's economy and price-conscious consumers backed off from spending more in product segments that were dominated by them. Growth had slowed in China, and major questions loomed about the market's future trajectory. Aside from the domestic risks, China's economy will be pressured externally by the geopolitical risks and a global slowdown due to interest rate hikes to curb inflation. Actual shipping statistics in the first half of 2023 demonstrated that the global handset industry in the second half of 2023 will continue to be uncertain and tenuous, and consumers will be unpredictable and fickle. Most of our customers do not commit to long term production schedules, and may cancel their orders, change production quantities, delay production or change their sourcing strategy. Customer relationships with emerging companies may present more risks than with established companies. With declining sales, we may not be able maintain our leadership in the mobile phone EMS industry. In the saturated handset market, brands will need to consider carefully the factors that affect consumer behaviors and respond accordingly. Canalys' research report published in April 2023 expected the smartphone market will gain momentum in the second half of

BUSINESS REVIEW *(Continued)*

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Risks and Opportunities of 2023 *(Continued)*

(I) Demand Side *(Continued)*

(i) (Continued)

2023 as channel inventories reach healthier levels. Vendors are cautiously approaching the market with profitability targets, lean operations and inventory clearing as top priorities. However, for vendors with long-term ambitions and capital to invest, challenging market conditions provide an excellent environment to capture market share, showcase commitment and intentions to new markets, and establish close partnerships with the channel.

The success of the Group ties together with the success of our customers. A substantial percentage of our sales are made to a small number of customers, all of which usually operate in markets with severe competition, and the concentration risk is high. Market developments experienced by our customers and/or market acceptance of their new products/models or new customer development may from time to time affect the Group's business and it is difficult to project future order book of the Group and quarterly performances. A major customer has found new manufacturing partners in China and India and it is expected that the sales to this customer will continue to drop dramatically in the second half of 2023. This customer is experiencing steady decline in sales and market share in India along with regulatory challenges. Sales to some other major customers may also be subject to huge pressure as the market demand continues to be very weak.

Gross margin can vary from period to period and it is hard to maintain gross margin in the highly competitive marketplace with huge margin erosion pressure as different programs (both old and new) may contribute different gross margin, depending on the type of services involved, complexity of the product, business model, volume of the programs, and bill of material costs. Usually, in the early stages, manufacturing volumes are still low and the gross margin is low as new programs need time to ramp up and achieve economies of scale and there are unabsorbed manufacturing overhead costs to bear. Our customers are constantly seeking to reduce costs in their supply chains 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. Definitely, these pressures on pricing and costs in the mobile phone industry to continue. Any broad-based change in our prices and pricing policies will reduce our revenues and erode our margins. In particular, peers in China are very cost competitive and this is why the Group has to move the gravity out of China. We faced risks arising from the restructuring of our operations. The moving out of China and decline of the

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

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Risks and Opportunities of 2023 *(Continued)*

(I) Demand Side *(Continued)*

(i) (Continued)

Group's sales in China resulted in deteriorating utilisation of assets in China and the continuous need to carry out large scale and decisive downsizing and restructuring in Northern China to rationalize the headcounts and to align our capacity with current and anticipated customer demand. There is a need to make severance payments according to local labour law requirements and the amount can be large which will affect the Group's performance in 2023 and we have been extremely careful when handling restructuring as it may affect employee morale. It is expected that additional restructuring actions will be required in the second half of 2023 in some overseas sites, which subject us to different legal and regulatory requirements that govern the extent and speed of our ability to reduce our capacity and workforce. The process of restructuring entails, among other activities, moving production between sites and facilities, transferring programs from higher cost locations to lower cost locations, trimming facilities, reducing the level of staff, realigning our business processes and reorganizing our management.

With major economies experiencing weak growth, the global economic growth has been sluggish so far this year. Despite the Chinese economy's recovery falling short of expectations, it has maintained relatively faster growth compared to other countries in the first half of 2023. But despite some clear signs of a turnaround, the job prospects for young people remain gloomy — a sign that policymakers still need to do more to support the recovery from the pandemic's economic drag. There are several structural reasons for the elevated youth unemployment. On the demand side, the property, internet, and education sectors, which absorb a large portion of university graduates every year, are still coping with the residual impact of the regulatory clampdowns of the last few years. Second, many smaller businesses that closed during the pandemic haven't reopened. The swelling ranks of jobless youth also represent a looming demographic challenge for Chinese policymakers. The country's population is entering decline for the first time in six decades and is set to be overtaken by India's, just as concerns mount about a structural slowdown in economic growth. China is encouraging companies to boost hiring as the economic recovery gathers pace, underscoring persistent worries over the labour market and soaring unemployment among young people.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

(I) Demand Side *(Continued)*

(i) (Continued)

In this inflationary environment, it is crucial for the Group to prioritize effective cost management and continuously seek avenues for optimizing operational efficiency. By identifying opportunities for process improvements and embracing innovative strategies, the Group can mitigate the impact of rising costs and adapt to the evolving market dynamics. These proactive measures will enhance the Group's competitive position amidst the challenges posed by inflation.

(ii) Most of our customers do not commit to long-term production schedules. Market demand is weak and there maybe risks of customer cancelling, delaying or reducing demand or orders or returning shipped phones which will result in open purchase order exposure and/or excess inventory or idle DL and we have to cancel the open purchase orders. For long lead time components, we usually have to place purchase orders in an earlier manner. Engineering changes by a customer may result in obsolete materials or components. While we attempt to cancel purchase order of material/component placed, return or otherwise mitigate excess and obsolete stock, require customers to reimburse us for these items and/or price our services to address related risks, we may not actually be reimbursed timely or in full, be able to collect on these obligations or adequately reflect such risks in our pricing. To reduce the risk, procurement team will exercise extra prudence and communicate well internally before placing purchase orders for long lead time components. Material and component supply instability and delays in deliveries can result in increased pricing. While many of our customers permit quarterly or other periodic adjustments to pricing based on changes in raw material or component prices and other factors, we will ask customers for price increases. But such repricing may not be accepted by customers. As explained, it may need quite a long time before shipment can be made to new customers as it needs time to develop new programs. It also needs a bit of time before profit can be made as there are start-up costs before shipment volume can reach breakeven point.

(iii) The global economic challenges arising from high inflation and interest rates, depreciation in emerging market currencies and resulting fluctuation in consumer demand, resulting in severe economic instability, were more challenging to HMD's operations than initially anticipated and especially impacted HMD's business performance in the second half of 2022. To improve its cash position, HMD took a number of actions including active management of operating expenses, reviewing agreements with key partners and optimising their supply chain to

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

(I) Demand Side *(Continued)*

(iii) (Continued)

improve their future financial position. To reduce costs, HMD are working with price competitive ODMs. HMD will continue to invest in sell-out rebates to keep stock moving while keeping sell-in moderate to allow channel inventory levels to reach sustainable levels. In terms of the second half of 2023 outlook, HMD is aiming to keep sell in revenue stable and are continuing to focus on profitability until the smartphone market starts showing signals of recovery and growth. HMD continues to improve smartphone gross margin. This is strategically important as the feature phone market is declining faster than predicted. The going-concern of HMD is very important. In addition, according to the agreements entered by and between Nokia and HMD in 2016, the license under said agreements will continue until 31 March 2027 unless terminated earlier. HMD will reflect any changes of terms thereof in its strategy.

As the fund-raising of HMD is not successful in 2022 and HMD is cash tight, the Group has to continue to monitor payment and evaluate going-concern risk of HMD. Based on the cash position of HMD, it is expected that there is a continuous need to make expected credit loss allowance if HMD cannot pay overdue trade receivable and the amount can be huge in the second half of 2023.

- (iv)* Regarding the completion timeline for IMP (In-the-Market) programs in HMD Nokia-branded feature phones, the IMP projects are expected to be completed by early next year. However, starting from July, we will transition some of the business to a consignment model. Under this model, a third party will purchase some of the main materials and consign them to the Group and the Group's primary role will be contract manufacturing, including processing charges and procurement of casing/housing, packaging materials, and some electronic components on the PCBA. This shift in approach aims to reduce OPO and inventory risks, as well as minimize capital utilization. As the Group does not bear the inventory risk, the main business scope with HMD will become the provision of processing services to HMD. It means that sales amount of phones to HMD in the second half of 2023 will decrease and processing income will increase. But the amount may not be very large.
- (v)* Some people believe that the performance of mobile phones is now very strong with all kinds of basic functions, and there is no breakthrough in product form, and the marginal effect of changing mobile phones is very small. The decline in consumer demand for mobile phones is directly reflected in shipments.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

(I) Demand Side *(Continued)*

(vi) For our India operation, we are already a beneficiary of Telecom PLI (Production Linked Incentive) since we are meeting the scheme's criteria. However, in the mobile phone segment, our base year volumes (2020) were very high which made it very challenging for us to meet the year-on-year volume increment criteria since the overall smartphone market shrunk during the COVID-19 period. Also, we do not make many devices having ASP (Average Selling Price) of US\$200 which is another criteria to receive incentives. Our India team is now putting effort to develop new customers with products which can meet such criteria. Some of our industry peers are also facing similar challenges and they met the government to voice these concerns.

(vii) According to research firm the International Data Corporation (IDC), 31 million smartphones were shipped in India during the first three months of this year and this was 16% lower than in the same period of 2022 and the lowest first-quarter shipments in four years. IDC highlighted that the sluggish demand came amid an uncertain economic outlook and as stockpiles of handsets remain high. Economic growth of India slowed to 4.1% for the first three months of 2023 and the slow economic recovery is not allowing the consumption demand to become broad-based nor helping the wage growth especially of the population belonging to the lower half of the income pyramid. Brands focussed on premium phones will continue to benefit from the polarization of the market, as consumers from higher income groups are less affected by the weaker economy. Demand for cheaper handsets was hit by the tough economic environment and users become even more price-sensitive and they take longer to upgrade their handsets. As India is the country in which FIH has been keen to expand the scale of production, the drop of demand will affect the asset utilisation there.

(II) Supply Side

Stable and efficient manufacturing operations depend on the availability of components and materials, and how those ordered material and components can be shipped to the factories in a timely manner. For India and Vietnam, local supply chain and value chain is not mature yet and we/suppliers have to ship the materials and components from China to factories in these countries.

(III) Inflation

The U.S. CPI for June eased to 3%, marking the twelfth consecutive month of decline and reaching a new low since March 2021. The core CPI of 4.8% is also hitting a new low since October 2021. The June 2023 report indicates a significant cooling of inflation, offering renewed hope for the FED to conclude its most aggressive rate-hiking

BUSINESS REVIEW *(Continued)*

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Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

(III) Inflation *(Continued)*

cycle in decades. However, given the robust job market and resilient economy of U.S., there is a general expectation that the FED will continue to raise interest rates in the second half of the year and maintain them at elevated levels. As interest rates begin to bite, consumers are likely to cut their spending where they can. This will flow through to businesses as reduced demand for goods and services, particularly discretionary items. Businesses may also face challenges to their plans, due to higher costs of borrowing.

As the market is uncertain, according to IFRS requirement, at the end of the reporting period, there is a need to review the carrying amounts of the assets (such as property, plant and equipment and right-of-use assets, goodwill, financial assets etc.) to determine whether there is any indication that they 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. As business environment is tough, there may be a need to provide impairment loss.

(IV) Macro-economics

(i) Global

The main factors that have been impacting the global economy in 2022 continue to persist into 2023, affecting major economies worldwide. These factors include geopolitical conflicts, supply chain restructuring, inflation, and high interest rates. In terms of financial and monetary aspects, the FED initiated a tightening monetary policy since mid-2022 and achieved the target federal funds rate of 5.25% by May 2023. Inflation has gradually cooled down, and supported by resilient economic data, the US dollar is expected to maintain its strong position throughout 2023. However, the Chinese RMB continues to face downward pressure against the US dollar due to a slower-than-expected recovery in the domestic economy. As for trade and services aspects, both the European Union and the U.S. have experienced a significant decline in demand for consumer goods since 2022. Although China has lifted its pandemic-related restrictions, consumer momentum remains sluggish. As interest rates rise, consumer demand gradually weakens, and shipping rates have returned to pre-pandemic levels, further alleviating inflationary pressures. For international energy aspects, oil prices in 2023 have shown signs of moderation compared to 2022 but remain volatile at high levels. Organization of the Petroleum Exporting Countries (OPEC) reducing production may lead to continued price increases as demand recovers. On the other hand, the Russia-Ukraine conflict has impacted Europe's natural gas supply chain. Despite efforts to quickly shift supply chains to other relatively stable countries, Europe experienced significant price pressures until a complete transition was achieved. Lastly, for geopolitics, the U.S. and its NATO allies continue to aid Ukraine in the ongoing Russia-Ukraine conflict, aiming to end the war by the end of 2023. Additionally, the U.S. is increasingly using technology restrictions to suppress China's advanced semiconductor capabilities and reduce China's economic influence through supply chain diversification. These actions pose potential political risks in the future. As a whole, the global economy continues to confront substantial risks and remains in a state of uncertainty in 2023.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

(IV) Macro-economics *(Continued)*

(ii) China

COVID-19 cycle damage could align with some of the structural headwinds that China has – particularly around the size of the property sector, decoupling from global economy, demographics – and push China on to a much slower growth rate. China’s economy expanded by 6.3% in the April to June months from a low base a year ago, according to data released by the National Bureau of Statistics, falling short of market expectations as export demand remained tepid and sinking property prices sapped consumer confidence. Compared to the first quarter, gross domestic product (GDP) grew just 0.8% from April to June. It slowed significantly from the 2.2% quarter-on-quarter growth registered in the first quarter and showed a marked slowdown in consumer spending and faltering business confidence and reinforced the idea that growth has indeed lost steam. Private businesses, the backbone of the economy and the biggest source of employment, are hesitant to hire or make new investments. If weakening demand is to be reversed, private investment must be encouraged to increase beyond the property sector. Then there is no need for the Chinese Government to roll out a large fiscal stimulus package. The major risk faced by consumers remains the uncertainties stemming from the property market as consumers might hoard their savings if they do not see substantial capital gain via holding real estate as a financial asset. Local governments should move away from relying on land sales as their main source of revenue. In practice, this means supporting the completion of unfinished projects, providing incentives for healthy developers to increase investment, and consolidating the industry. When the property market stabilizes, stronger property developers will emerge on the back of further policy support.

Rising wages and the Chinese Government’s clear policy objectives sent signals to multinationals that they should focus on leveraging China’s high-end manufacturing base while relocating lower-end products to other investment-led markets such as ASEAN countries and India, who may benefit from investments moving away from China. With some of the world’s most advanced manufacturing capabilities, sought-after skills and a rising middle class, China is no longer a low-cost base and “the ‘factory of the world’ is moving up the value chain. With China’s strong focus on expanding the domestic market and its demand, reducing dependence on foreign markets and fueling local innovation for growth, Chinese consumers are increasingly turning toward local brands. Rather than relying on Chinese factories to produce goods that are ultimately sold elsewhere, companies are adopting a “China for China” strategy, which aims to establish R&D facilities in China to make products for a huge, growing domestic market and capture their own slice of the consumer pie. The Chinese Government also encouraged multinational companies and foreign research institutions to establish local design centers, demonstration factories and collaborations with Chinese companies. As a whole, a sagging global economy also added to China’s woes and the underlying point is that the Chinese Government is keen to boost domestic consumption and private investment, as foreign demand will continue to face very challenging conditions in 2023.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

(IV) Macro-economics *(Continued)*

(ii) China *(Continued)*

It is expected that the Group will book net interest expense and foreign exchange loss in 2023. In the 12 months through June 2023, the CPI advanced 3% and this was the smallest year-on-year increase since March 2021. Annual inflation is a third of what it was last June, when prices surged 9.1%, which was biggest increase since November 1981 and marked a peak in the year-on-year CPI rate. Nevertheless, inflation remains well above the FED's 2% target, with the labour market still tight. Though employment gains were the smallest in 2-1/2 years in June, the unemployment rate fell close to historically low levels and wage growth was strong. Inflation could remain high and even rise if further shocks occur, including those from an intensification of the Ukraine war and extreme weather-related events, triggering more tightening monetary and fiscal policy. Financial sector turbulence could resume as markets adjust to further policy tightening by central banks. Still, retreating inflation raised cautious optimism that the economy could avoid a much-anticipated recession. We will keep monitoring interest rate and exchange rates and put effort to minimize treasury risks.

(V) Performance of associates and a joint venture

The investments in associates and a joint venture are accounted for using the equity method in the Group's consolidated financial statements. Unprecedented and uncertain global environment resulting in a wide range of potentially negative long-term consequences which may give rise to potential losses in operation and discrete losses or expenses, such as those related to goodwill and intangible assets in these associates and joint venture. Under equity method, investments in associates or a joint venture are 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 (Other Comprehensive Income) of the associates or joint venture. The Group needs to share the results of associates and joint venture. The Group also needs to assess whether there is objective evidence that the interest in associates and 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. During the current period, share of loss of a joint venture was US\$2.1 million (same period 2022: US\$5.2 million) and share of loss of associates were US\$3.2 million (same period 2022: US\$4.1 million). The joint venture suffered a loss as hardware sales is facing headwinds as the EV market in mainland China is becoming hyper-competitive, impacting both the volume and causing pricing pressure on all suppliers. As the global economy has not recovered yet and demand is still weak and competition is fierce, impairment risk on investment (including goodwill) is always there.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

Opportunities

- (i) Through the extra effort made, the Group successfully sold land and buildings in Hangzhou, and the sale was completed during the current period, which recorded a before-tax gain on disposal of US\$6.2 million in the second half of 2022 and US\$78.5 million in the first half of 2023. Furthermore, the Group has made provision for compensations to the lessees and the service providers of US\$13 million in the current period. In addition, the Group entered into an agreement for sale of land and buildings in Hungary on 7 July 2023 and has also proposed to dispose of the buildings in Beijing as announced by the Company on 7 June 2023, which are expected to generate before-tax gains of US\$8.5 million and US\$13.1 million respectively in the second half of 2023. In accordance with IAS 16 and IAS 40, we should de-recognise the assets when we lose control over them. Therefore, the gain on disposal should be recognised when the transfer of ownership takes place.

On 7 June 2023, the Company announced that as a matter of cooperation with the local government's urban renewal, 富智康精密組件(北京)有限公司 (FIH Precision Component (BeiJing) Co., Ltd., for identification purposes only) (being an indirect wholly-owned subsidiary of the Company) proposed to dispose of the owned buildings, structures and trees on the land plot in Beijing, the PRC, to 北京亦莊城市更新有限公司 (Beijing E-Town Urban Renewal Co., Ltd., for identification purposes only). Based on the total net book value of the assets to be disposed and the costs incurred and to be incurred by the Group in relation to the proposed disposal, it is currently estimated that the Group is likely to recognise a before-tax gain of approximately US\$13.1 million in the second half of 2023.

On 7 July 2023, the Company announced that FIH Europe Limited Liability Company (being an indirect wholly-owned subsidiary of the Company) proposed to dispose of the owned property to a connected person of the Company under the Listing Rules. The disposal was completed on 7 July 2023. Based on the total net book value of the property disposed and the costs incurred by the Group in relation to the disposal, the Group would recognise a before-tax gain of approximately US\$8.5 million in the second half of 2023.

- (ii) Although the global economy remains fragile, growth in the mobile phone market is on the horizon, provided economies recover. CCS Insight forecasts a small worldwide growth in 2024 and onward, driven by renewed demand in developed markets and a return to the pre-pandemic trajectory of mobile phone adoption in the emerging world. However, global sales of mobile phones will remain well below the levels we have seen in the last decade for some considerable time.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

Opportunities *(Continued)*

- (iii) India team is pitching business aggressively in two industry segments — 2 wheeler EVs and telecom/network products since these two have strong growth potential and also because India team has developed great expertise in these product categories over the last few years. In EVs, India team is in touch with new logos for ABS Controller Units, e Modules, clusters and controllers. In telecom/network hardware, they are approaching ODMs for products such as GPONs, ODUs, home gateways, STBs, etc. In mobile phones, they are in discussions with a foreign operator for exports. In IoT/consumer electronics, they have managed to win additional orders from an existing customer which increase the output by five folds.

- (iv) As the U.S. Government is offering good incentives for car makers to manufacture cars in U.S., major car brand companies are actively planning to take the ride. In particular, EV is no doubt the major next wave due to eco-friendly requirements. The major car makers will need more electrical key part suppliers to support their car factories in U.S.. For efficiency and supply risk considerations, the car makers will certainly prefer the key part suppliers can manufacture the key parts in North America so their U.S. car factories can benefit from the shorter supply lines and less supply risks (recall the problems caused by COVID-19 and the problem in cross-Pacific transportation, etc.).

As the Group has been in ICT industry for long years, particularly on the smartphones, mobile devices and IoT devices, the accumulated experiences are attractive for major car brand customers to consider to source some electronic key parts of EV to the Group and design and manufacturing capabilities of electronic goods provided that the Group can utilize Mexico factory and invest the high quality standard manufacturing for automotive grade products and electronic goods. Since our Mexico factory has been in operation for long years and our engineering and manufacturing capabilities for automotive key parts have been validated through our partnership project, we shall have a good chance to win some projects and currently we are chasing actively on these opportunities.

The Group will continue to evaluate our global footprint and diversify country risks and expand in the countries/locations where customers would like to do business with us and manufacture products for them, and invest capital in new capabilities and capacities that match needs of identified market and to prioritise spending related to future business.

- (v) To both existing operation sites in U.S. and Mexico in the North America region, the Group's strategy has been diversifying the business model and transforming them from the after-market services and logistics centric to manufacturing services among these two sites. This is to satisfy the trend of global supply chain restructure and USMCA localization requirement especially to the automotive industry.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

Opportunities *(Continued)*

(v) *(Continued)*

There have been many consumer electronic OEM customers looking for our “Made in America” manufacturing solution or so called “nearshore solution” in the last two years during pandemic. However, the situation changed rapidly post-pandemic. Some key cost factors such as freight, labour cost, readiness of ecosystem, production efficiency etc., have been impacting the manufacturing cost and eventually to the finished good price, which is still comparably high to the cost made in Asia, when supply chain stabilized after pandemic. This result is causing the demand forecast dropped or cancelled especially at consumer electronic products in 2023 and beyond. The “High Volume Low Cost” consumer product to be made in America is an unrealistic subject to be executed in the region. On top of these factors, the inflation impact to the market since the fourth quarter last year has been lingering so far in 2023. It also has influenced and slowed down the investment to support manufacturing opportunities in this region. With the experiences and result from above during the pandemic, the Group has adjusted the strategy and is still optimistic about the long term manufacturing opportunities in this region.

Our North America manufacturing services will be focusing on B2B customers rather than consumer product customers, such as devices to government, devices to different industries and medical devices etc. Besides, thanks to the USMCA and growing demand of new energy vehicles, we see promised opportunities in this area in the next 5 years. Not only the new target of customers, we are also seeing the automation capabilities is a must have feature to ensure the success of operation in North America region. The Group has a very strong automation team with end-to-end solutions and engineering experiences which will be fully utilized and benefit all new projects introduced in the region. The Group has planned and prepared for the 3 years of expansion based on the new strategy described above. It will include capital investment, construction for new facilities and new organization built in a controlled manner.

- (vi) The fast-growing India market is one of the Group’s major focus. The Group has resumed India casing factory with its own tool shop in 2020, with full enclosure manufacturing processes, co-located with Group’s SMT/final assembly factory in Chennai Tamil Nadu. Local EMS capacity combined with Group’s strong global multi-site R&D resources, offers variant scope of local service from IDM, ODM, JDM, EMS to fulfill current and potential customers’ needs for new product lines. The complete resource mapping readiness allows the Group to closely follow the Indian Government’s “MII” (Made In India) policy. Apart from the differentiation service strategy for the China market, the Group is undertaking the volume-driven strategy for India market with the intention to benefit the supply chain’s management. These benefits translate into greater on-time delivery, lower inventory costs, bigger bargaining power especially in key components and increased flexibility.

A survey by Gartner in the first half of 2023 states that almost 33% of supply chain leaders have already moved their businesses out of China, or are planning to. The reasons behind this migration are several. First, this can be attributed to increased tariffs imposed by the Chinese Government and the U.S. Government resulting in rising business costs. Second, growing geo-political tensions further strain the world’s sub-contracting relationship with China.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

Opportunities *(Continued)*

- (vii) We have a global culture of continuous improvement, sharing best practices and implementing lean principles. We will continue to drive lean and operational excellence initiatives with common global processes that allow us to optimise our cost structure and capacity. Our customers benefit from these initiatives by sharing in the cost savings and knowing that their manufacturing partner can scale to meet their growth needs.

- (viii) For the long term, the market continues to expect a steady migration from feature phones to smartphones and 3G/4G to 5G smartphones. Currently, with the component price decline and component availability increase, the average price of entry level 5G smartphones has been decreased. This will facilitate the 5G adaption into the mass market, particularly in price-sensitive developing countries and eventually drives sales growth. As a whole, the global market for 5G devices is expected to show healthy growth and act as a significant driver of the overall smartphone market.

The Company refers to its profit warning announcement of 3 May 2023 which provided (among other things) an update on its expected 2023 interim performance and included information about the various factors that contributed to the Group's consolidated net loss for the current period and were expected to continue into the remainder of 2023.

Given the various challenging factors described above in this "Discussion and Analysis" section (including without limitation those relating to slow economic recovery, generally weak handset demand, keen competition, margin erosion pressure, inflationary pressure, under-utilised assets, continuing downsizing and restructuring efforts and associated costs, the performance of associates and a joint venture, geo-political tensions, credit and trade receivables collection risks and associated increase in expected credit loss allowance amount, exchange rate volatility and foreign exchange loss, and high interest rates) as well as the numerous variables and factors that might adversely affect or continue to adversely affect the Group's performance in the second half of 2023 and ultimately the full year ending 31 December 2023 (FY 2023), the Company considers it is currently too early and difficult to predict meaningfully and with any precision what further adverse impact such variables and factors might have on the Group's operating performance in the second half of 2023 and ultimately FY 2023.

That said, the Company currently expects conditions in the second half of 2023 to remain difficult and volatile. On currently-available information, the Company believes there is a realistic likelihood of a year-on-year material decline in FY 2023 sales and a year-on-year material deterioration in FY 2023 gross profit and operating performance, which are then likely to result in a substantially enlarged operating loss for FY 2023 compared with the full year ended 31 December 2022.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

Opportunities *(Continued)*

Over the last several years, the Company has been proactively taking appropriate and reasonable steps to seek to improve the Group's performance notwithstanding the various challenges over that period. The Company will keep matters under close review as the second half of 2023 progresses, and will make further announcement(s), as necessary, to keep its shareholders and potential investors informed.

In the meantime, pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose in due course (which is currently expected to be in or about November 2023) certain unaudited consolidated financial information of the Group for the nine months ending 30 September 2023, and simultaneously upon such disclosure in Taiwan, the Company will announce the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan.

The Company wishes to take this opportunity to reiterate and explain that the Group's quarterly performance may vary (possibly significantly) depending on various factors, including without limitation the following, individually and collectively, and some of which are beyond the Company's control:

- (i) changes in: (1) the handset ecosystem and macro-economic environment (e.g. changes in global economic, increased international political volatility, complex geo-politics and increasing geo-political tensions, de-risking relations with China, decoupling from China, de-globalisation, de-sinicization, vigorous competition, consumer behaviours, inflation, and the recovery and resilience of economy of China and other major economies; (2) the industry; (3) major markets generally; and (4) end market demand and consumer willingness to spend;
- (ii) customers and their strategies and risk appetite and business and financial conditions; China plus One strategy; China for China strategy; nearshoring;
- (iii) success of our customers' products in the marketplace and sales performance; business strategy adjustments; outsourcing strategy change; inventory accumulation in the channels, customer and sales and product mix changes; the ramping of programs for new or existing customers; customer disengagements or terminations or non-renewal of customer programs; product launch or product recalibration strategies and timing; possible cancellation or delay of customer orders or change of production quantities; market competitiveness; shifts in customers' demand and preferences and propensity to spend (e.g. in-house manufacturing instead of outsourcing); business model changes (like changing from buy and sell to consignment or vice versa); timing of

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

Opportunities *(Continued)*

(iii) *(Continued)*

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 due to the customer's engagement with new manufacturing partners 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;

- (iv) local factors and events that may affect our production volume, such as local holidays (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, weather and climate changes or natural disasters; power supply in summer seasons in China and Vietnam, surplus production capacity;
- (v) the seasonality of sales in quarterly revenue patterns; the cyclical nature of customer demand; shortened demand visibility; varying revenues and gross margins among geographies/segments and programs for the products or services we provide;
- (vi) product maturity and oversupply of certain products or models and poor consumer sentiment. 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 and longer replacement cycle time. Persistent effects of inflation could further dissuade consumers to upgrade. 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;
- (vii) customers' credit and collection and going concern risks and assessment of adequacy of expected credit loss allowances. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional expected credit loss allowances of huge amount and inventory provision may be required and restructuring charges may be incurred;
- (viii) when customers reduce/cut their orders, the Group has to cut excess open purchase order and reduce excess inventory;
- (ix) the timing of our expenditures in anticipation of future orders; upfront investments and challenges associated with the ramping of programs for new or existing customers;
- (x) technology advancement; pace of overseas expansion;

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

Opportunities *(Continued)*

- (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 payments 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) in order to ensure the Group's cashflow is appropriately managed, intra-group dividends declared by subsidiaries within the Group will have dividend withholding tax implications for the Group;
- (xiii) timing of receipts of agreed charges, fees, service income, compensations, claims or reimbursements from customers;
- (xiv) factors relating to the supply chain (e.g. component cost increases, availability of commodities, extended delivery lead times and shortages) which can affect material sourcing and production planning, order fulfilment, shipment and costs, and inventory (e.g. accumulated/excess inventory may take time to clear and may have to be written-off, thus increasing inventory carrying cost); changes in cost and materials, components, services and labour;
- (xv) time needed to configure, ramp up and ramp down production to respond to new mobile phone and non-phone product innovations, models and consumer trends;
- (xvi) changes in money markets (e.g. fluctuation of interest rates and foreign exchange rates as well as foreign exchange gains and losses) and capital markets; market volatility (e.g. RMB and INR and volatility of other major currencies, stock market volatility); effectiveness of hedging activities; net interest income/expenses; 2023 money market is volatile and the figures for 2023 can differ significantly from historical figures;
- (xvii) market/legal/regulatory/tax/fiscal and monetary/government policy/tariff changes (e.g. changes of custom duty rates, custom duty exemptions, tax audit, transfer pricing adjustment, India's PLI (Production Linked Incentives) scheme, government's blacklisting);
- (xviii) 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;

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

Risks and Opportunities of 2023 *(Continued)*

Opportunities *(Continued)*

- (xix) performance of the Group's associates and joint venture and its share of those associates' and joint venture's profits/losses; and the associates and joint venture which have experienced losses in such turbulent marketplace and there may be a need to make impairment on such investments; timing of dispositions of equity investments and resulting profits/losses and tax payments; timing of booking of revaluation gains/losses on equity investments;
- (xx) booking of income tax payments; reversal of deferred tax assets/liabilities; 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/unit selling price, etc.) and such applicant's eligibility and ability to meet all such conditions and criteria.

Looking forward, the macro-environment in the second half of 2023 will likely remain uncertain and challenging, and consumer demand will likely remain weak, thus adversely affect the Group's recovery.

New and 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 impact on the Group's business. Additional risks and uncertainties not presently known to the Company or not currently viewed as material might also affect the Group's business, cash flows, results of operations and financial condition.

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

OTHER INFORMATION

DIRECTORS

Reference is made to pages 111 and 112 of the Company's 2022 annual report as issued and published on 13 April 2023 as well as the Company's announcements dated 10 March 2023 and 29 June 2023 relating to the changes in its directors during the current period and announcement dated 19 May 2023 relating to the poll results of the Company's annual general meeting held on 19 May 2023 (the "2023 AGM").

Pursuant to article 95 of the articles of association of the Company in force for the time being (the "Articles"), the Board is empowered to appoint any person as a director either to fill a casual vacancy on or as an addition to the Board, and the director so appointed shall hold office only until the first annual general meeting of the Company after his/her appointment and shall then be eligible for re-election at such annual general meeting. According to article 95 of the Articles, Mr. LIN Chia-Yi (also known as Charles LIN) ("Mr. Lin"), who was appointed as an executive director of the Company with effect from 10 March 2023 and being eligible, offered himself for re-election at the 2023 AGM. Pursuant to the approvals of the Board on 10 March 2023 and the Company's shareholders on 19 May 2023, Mr. Lin was re-elected as an executive director of the Company for a term of not more than 3 years commencing from 19 May 2023 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. Mr. Lin is entitled to annual emoluments package (consisting of basic salary of US\$137,118 and a discretionary bonus) determined by the Board from time to time in accordance with the directors' remuneration policy of the Company adopted by the Board (as amended from time to time) (the "Directors' Remuneration Policy").

Pursuant to article 112 of the Articles, one-third of the directors of the Company 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 of the Company shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles and as disclosed in the Company's announcement on change of directors dated 10 March 2023, Mr. TAO Yun Chih retired from office by rotation at the 2023 AGM and he, although being eligible, did not offer himself for re-election and retired as an independent non-executive director of the Company with effect from the conclusion of the 2023 AGM. He also ceased to be a member of each of the audit committee, remuneration committee and nomination committee of the Company with effect from 19 May 2023, simultaneously upon his retirement.

Pursuant to the approvals of the Board on 10 March 2023 and the Company's shareholders on 19 May 2023, Ms. CHEN Shu Chuan (also known as Nadia CHEN) ("Ms. Chen") was appointed as an independent non-executive director of the Company with effect from the conclusion of the 2023 AGM for a term of not more than 3 years commencing from 19 May 2023 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) her next re-election is considered in accordance with the Articles. Ms. Chen is entitled to a fee for her services as an independent non-executive director of the Company of Hong Kong dollars (HK\$)26,000 per month (less any necessary statutory deductions). Simultaneously upon her appointment, she was appointed as a member of each of the audit committee, remuneration committee and nomination committee of the Company.

OTHER INFORMATION *(Continued)*

DIRECTORS *(Continued)*

Pursuant to article 95 of the Articles and the approval of the Board on 29 June 2023, Mr. CHANG Chuan-Wang (“Mr. Chang”) was appointed as a non-executive director of the Company with effect from 29 June 2023 for a term of not more than 3 years commencing from 29 June 2023 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. In light of the Directors’ Remuneration Policy and Mr. Chang’s current remuneration package with the Hon Hai Technology Group, notwithstanding that a fixed remuneration in the form of an annual fee is normally payable to each non-executive director of the Company under the Directors’ Remuneration Policy, it is mutually agreed that Mr. Chang will not receive any fee nor other remuneration from the Company for holding his office and acting in his capacity as a non-executive director of the Company.

Dr. Daniel Joseph MEHAN tendered his resignation as an independent non-executive director of the Company and ceased to act as an independent non-executive director and hence a member of each of the audit committee, remuneration committee and nomination committee of the Company with effect from 29 June 2023.

As a matter of an orderly succession at the Board level, Mr. CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) (“Mr. Chiu”) was appointed as an independent non-executive director of the Company with effect from 29 June 2023 for a term of not more than 3 years commencing from 29 June 2023 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 article 95 of the Articles and the approval of the Board on 29 June 2023. Mr. Chiu is entitled to a fee for his services as an independent non-executive director of the Company of HK\$26,000 per month (less any necessary statutory deductions). Simultaneously upon his appointment, he was appointed as a member of each of the audit committee, remuneration committee and nomination committee of the Company.

Ms. Chen has been appointed as a non-executive director of EasyCard Corporation (a company providing contactless smartcard payment system (EasyCard) service in Taiwan, whose shares are listed on the Emerging Stock Market of Taipei Exchange) with effect from 27 June 2023. She has also been appointed as the chairman of EasyCard Investment Holding Co., Ltd. (parent company to EasyCard Corporation) with effect from 30 June 2023.

Pursuant to the approval of the Board and the subsequent finalisation by the Board’s delegate, on 13 March 2023, the Company granted 1,697,181 shares and 1,171,972 shares to Mr. CHIH Yu Yang (“Mr. Chih”) and Mr. Lin, executive directors of the Company, respectively under the Former Share Scheme (as defined below). Such share awards were vested on 1 April 2023. For details, please refer to the Company’s announcement dated 13 March 2023 and the “Share Option Scheme and Share Scheme of the Company and Share Option Scheme of the Company’s Subsidiary” section below.

OTHER INFORMATION (Continued)

DISCLOSURE OF INTERESTS

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

As at 30 June 2023, 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 (also acting as the chief executive officer)	The Company	Beneficial owner	36,031,199 (Note 1)	0.4551%
	BFIH	Other	1 (Note 2)	0.00000004%
	CMCS (Note 3)	Beneficial owner	500 (Note 4)	0.0007%
KUO Wen-Yi	The Company	Interest of spouse	700,000	0.0088%
	Hon Hai	Beneficial owner	1,848	0.00001%
	Hon Hai	Interest of spouse	13	0.0000001%
LIN Chia-Yi (also known as Charles LIN)	The Company	Beneficial owner	1,173,012 (Note 5)	0.0148%
CHANG Chuan-Wang	Hon Hai	Beneficial owner	17,000	0.0001%

Notes:

- On 13 March 2023, Mr. Chih was granted a share award of 1,697,181 shares in the Company under the Former Share Scheme (as defined below) resulting in him being interested in the 1,697,181 shares as a beneficiary of a trust interested in the Company's shares. This share award was vested on 1 April 2023.
- Mr. Chih holds 1 share of BFIH as a nominee shareholder on behalf of Wonderful Stars Pte. Ltd. (an indirect wholly-owned subsidiary of the Company) without any beneficial interest.
- The Company indirectly, through its wholly-owned subsidiaries, holds approximately 87.06% of the entire number of issued shares of Chiun Mai Communication Systems, Inc. ("CMCS"), a company incorporated in Taiwan.
- As a result of the share capital reduction ("Exercise") conducted by CMCS effective from 1 June 2023, the number of shares in issue of CMCS has been reduced from 150,000,000 to 75,000,000. The Exercise has thus resulted in the proportionate reduction in the number of shares held by Mr. Chih in CMCS while the share interest percentage level has remained unchanged.
- On 13 March 2023, Mr. Lin was granted a share award of 1,171,972 shares in the Company under the Former Share Scheme (as defined below) resulting in him being interested in the 1,171,972 shares as a beneficiary of a trust interested in the Company's shares. This share award was vested on 1 April 2023.

OTHER INFORMATION (Continued)

DISCLOSURE OF INTERESTS (Continued)

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (Continued)

Save as disclosed above, none of the directors or chief executive of the Company had, as at 30 June 2023, 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 30 June 2023, 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	64.18%
Hon Hai (Notes 1 and 2)	Interest of a controlled corporation	5,081,034,525	64.18%

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. In addition, Dr. KUO Wen-Yi, an executive director of the Company, has been discussing some proposed arrangements with the Hon Hai Technology Group.

Save as disclosed above, as at 30 June 2023, 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.

OTHER INFORMATION (Continued)

SHARE OPTION SCHEME AND SHARE SCHEME OF THE COMPANY AND SHARE OPTION SCHEME OF THE COMPANY'S SUBSIDIARY

Adoption of Existing Share Option Scheme and Existing Share Scheme and Consequential Termination of Former Share Option Scheme and Former Share Scheme

In July 2022, the Stock Exchange announced amendments to the pre-existing Chapter 17 of the Listing Rules which took effect from 1 January 2023 (the "Existing Chapter 17"). The Existing Chapter 17 applies to both the former share option scheme (the "Former Share Option Scheme") and the former share scheme (the "Former Share Scheme") of the Company adopted by its then shareholders on 26 November 2013, subject to certain transitional arrangements. In order to ensure the continuity of a share option scheme and a share scheme for the Group to attract, reward, motivate and retain the eligible participants which would comply with the new requirements of the Existing Chapter 17, pursuant to the approval of the Board on 10 March 2023 and the approval of the Company's shareholders on 19 May 2023, the Company adopted the existing share option scheme (the "Existing Share Option Scheme") and the existing share scheme (the "Existing Share Scheme") of the Company and consequentially terminated the Former Share Option Scheme and the Former Share Scheme, in all cases with effect from the close of the 2023 AGM.

Since there are no options granted prior to the termination of the Former Share Option Scheme and not then exercised and no shares granted prior to the termination of the Former Share Scheme but remained to be subject to the corresponding lock-up periods, each of the Former Share Option Scheme and the Former Share Scheme shall remain valid and shall continue to be subject to the Existing Chapter 17, only to the extent necessary for the purposes of their termination and ancillary matters (if any) or otherwise as may be required in accordance with the provisions of the Former Share Option Scheme or the Former Share Scheme (as the case may be).

For details, please refer to the Company's circular as issued and published on 13 April 2023 and announcement in relation to the poll results of the 2023 AGM as issued and published on 19 May 2023.

Grant of Shares under Former Share Scheme

Further to the Company's announcement dated 13 March 2023 on the grant of shares pursuant to the Former Share Scheme, movements of the share grants under the Former Share Scheme during the current period were as follows:

Name of participant	Date of grant (dd.mm.yyyy)	Lock-up period (dd.mm.yyyy)	Vesting date (dd.mm.yyyy)	Number of shares granted						
				(Note 1) Fair value at the date of grant HK\$	Unvested as at 1 January 2023	Granted during the current period	Purchase price HK\$	Cancelled/ Lapsed/ Forfeited during the current period	Vested during the current period	Unvested as at 30 June 2023
Director/Chief Executive										
CHIH Yu Yang (also acting as the chief executive officer)	13.3.2023	13.3.2023 to 31.3.2023	1.4.2023	0.83	0	1,697,181 (Note 2)	0.83 (Note 2)	-	1,697,181 (Note 3)	0
LIN Chia-Yi (also known as Charles LIN)	13.3.2023	13.3.2023 to 31.3.2023	1.4.2023	0.83	0	1,171,972 (Note 2)	0.83 (Note 2)	-	1,171,972 (Note 3)	0
Total				-	0	2,869,153	-	-	2,869,153	0

OTHER INFORMATION *(Continued)*

SHARE OPTION SCHEME AND SHARE SCHEME OF THE COMPANY AND SHARE OPTION SCHEME OF THE COMPANY'S SUBSIDIARY *(Continued)*

Grant of Shares under Former Share Scheme *(Continued)*

Notes:

1. The fair value of the shares granted is measured by the quoted market price of the shares at the date of grant. A description of the basis for fair value measurement is set out in note 3.2 "Share-based payment arrangements" to the consolidated financial statements of the Company, forming part of the Company's 2022 annual report as issued and published on 13 April 2023.
2. The closing price of the shares on the date of grant was HK\$0.83 per share. The closing price of the shares on 10 March 2023, being the date immediately before the date on which the shares were granted, was HK\$0.82 per share.
3. The closing price of the shares on 31 March 2023, being the date immediately before the date on which the shares were vested, was HK\$0.85 per share. As 1 April 2023 (being the date of vesting) is not a trading day, there was no closing price of the shares on the date of vesting. The weighted average closing price of the shares immediately before the date on which the shares were vested, i.e. 31 March 2023, was HK\$0.85 per share.

In relation to the Former Share Scheme which was terminated on 19 May 2023, pursuant to the Former Share Scheme and the annual general mandate (the "2022 General Mandate") granted by the Company's then shareholders at the annual general meeting held on 20 May 2022 (the "2022 AGM"), the maximum aggregate number of shares of the Company (the "Shares") that are available for the trustee's subscription on behalf of those beneficiaries who are not the Company's connected persons (as defined in the Listing Rules) as well as the Company's related allotment and issue under the Former Share Scheme and the 2022 General Mandate is limited to 159,460,000 Shares, representing 2% of the total number of Shares in issue as at the date of the 2022 AGM. Since the grant of the 2022 General Mandate at the 2022 AGM until the termination of the Former Share Scheme on 19 May 2023, no Shares had been subscribed for by the trustee nor allotted and issued by the Company under the 2022 General Mandate. Immediately before and immediately after the purchase of 2,869,153 Shares during the current period as disclosed above, the total number of Shares that are available for the trustee's subscription on behalf of those beneficiaries who are not the Company's connected persons as well as the Company's related allotment and issue under the Former Share Scheme and the 2022 General Mandate had remained the same, i.e. 159,460,000 Shares. It follows that the total number of Shares available for grant under the 2022 General Mandate as at 1 January 2023 and as at 19 May 2023 (being the date on which the Former Share Scheme was terminated) was 159,460,000 Shares.

Other Scheme-Related Matters

Further details of the Former Share Option Scheme and the Former Share Scheme respectively are set out in page 131 to page 133 and page 136 to page 138 of the Company's 2022 annual report as issued and published on 13 April 2023 as well as note 18 to the unaudited condensed consolidated financial statements of the Group for the current period.

For details about the shares granted pursuant to the Former Share Scheme since 2017, please refer to pages 137 and 138 of the Company's 2022 annual report as issued and published on 13 April 2023.

In relation to the Former Share Option Scheme which was terminated on 19 May 2023, the total number of Shares in respect of which options might be granted under the Former Share Option Scheme was 757,380,227 Shares. Since the adoption of the Former Share Option Scheme on 26 November 2013 until the termination of the Former Share Option Scheme on 19 May 2023, no option had been granted under the Former Share Option Scheme.

OTHER INFORMATION *(Continued)*

SHARE OPTION SCHEME AND SHARE SCHEME OF THE COMPANY AND SHARE OPTION SCHEME OF THE COMPANY'S SUBSIDIARY *(Continued)*

Other Scheme-Related Matters *(Continued)*

Since the Company's adoption of the Existing Share Option Scheme and the Existing Share Scheme on 19 May 2023 and during the current period, the Company had not granted any option under the Existing Share Option Scheme nor any award under the Existing Share Scheme.

It follows that the total number of Shares that might be issued in respect of options and awards granted under the Existing Share Option Scheme and the Existing Share Scheme respectively during the current period had remained 791,700,000 Shares (representing 10% of the total number of Shares in issue as at 19 May 2023). 791,700,000 Shares (representing the aforesaid total number of Shares) when divided by 7,919,157,807 Shares (representing the weighted average number of Shares in issue for the current period) was 0.09997.

BFIH adopted a share option scheme (the "BFIH Share Option Scheme") on 28 May 2021. For details, please refer to page 133 to page 136 of the Company's 2022 annual report as issued and published on 13 April 2023.

During the current period, no option was granted under the BFIH Share Option Scheme.

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

For more details, please refer to pages 131 to 138 of the Company's 2022 annual report as issued and published on 13 April 2023 as well as note 18 to the unaudited condensed consolidated financial statements of the Group for the current period.

DIVIDEND

On 9 August 2023, the Board resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2023.

OTHER INFORMATION (Continued)

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period and up to 9 August 2023 being the date of this interim report, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 14 April 2022) duly approved by the Company's shareholders at the 2022 AGM, the Company bought back in multiple batches a total of 10,739,000 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK\$9,138,520.00 from 3 January 2023 to 31 March 2023 (both dates inclusive). Among these shares so bought back, 6,739,000 shares and 4,000,000 shares were cancelled on 13 January 2023 and 13 April 2023 respectively, in all cases in accordance with the Articles. For more details, please refer to the Explanatory Statement of the Buy-back Mandate as Appendix I to the Company's circular dated 14 April 2022 as well as the next day disclosure returns and monthly returns as issued and published from 3 January 2023 to 2 May 2023 (both dates inclusive).

The above share buy-backs during the current period are summarised as follows:

Date of buy-back	No. of shares bought back	Price per share		Aggregate consideration paid (before expenses) HK\$
		Highest HK\$	Lowest HK\$	
3 January 2023	2,161,000	0.86	0.85	1,851,200.00
4 January 2023	1,078,000	0.87	0.86	932,080.00
5 January 2023	1,000,000	0.86	0.86	860,000.00
6 January 2023	2,500,000	0.85	0.84	2,121,070.00
30 March 2023	232,000	0.84	0.84	194,880.00
31 March 2023	3,768,000	0.85	0.83	3,179,290.00
	<u>10,739,000</u>			<u>9,138,520.00</u>

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.

SHARE CAPITAL

No shares of the Company were allotted or issued during the current period, and the details of movements in the Company's share capital during the current period are set out in note 15 to the unaudited condensed consolidated financial statements of the Group for the current period.

RESERVES

Movements in reserves of the Group during the current period are set out on page 8.

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 as set out in Appendix 14 to the Listing Rules (the "CG Code"). Its primary duties are to review the Group's financial reporting process and internal control and enterprise risk management systems, nominate and monitor external auditor and provide advice and comments to the Board. The audit committee comprises three independent non-executive directors (among whom one of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules).

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

OTHER INFORMATION *(Continued)*

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code, and has formulated and adopted the Authorisation Procedures of Model Code for Securities Transactions by Directors 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 in respect of the Company's securities throughout the current period, and the requirements laid down by the aforesaid Authorisation Procedures and Securities Dealing Policy in respect of the Company's securities throughout the current period.

CORPORATE GOVERNANCE

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

For the sake of completeness, on 9 August 2023:

- (1) the Company has amended and adopted the following policy and procedures (which form part of the Manual) for the purposes of corporate governance enhancements, better operation and implementation in practice as well as better compliance with applicable requirements under the Listing Rules:
 - (a) Authorisation Procedures of Model Code for Securities Transactions by Directors, incorporating (among others) key amendments relating to the clarification of notification in advance by the Company's secretary to the Company's directors of the commencement of the relevant blackout period (in place of the proposed date of the relevant Board meeting to consider the Company's annual/interim results); the explicit communication channel via emails; more frequent completion by the Company's directors of compliance questionnaire from an annual basis to a bi-annual basis; and a more comprehensive form of compliance questionnaire.
 - (b) Securities Dealing Policy, incorporating (among others) key amendments relating to the clarification of the application rejection notification form (as opposed to the application approval notification form); an up-to-date definition of "Deal"/"Dealing"; an up-to-date definition of "Associates"; and the additional prohibition against Dealing in securities of an issuer (other than the Company) when possessing inside information in relation to such issuer's securities by virtue of the position as a director or designated person of such issuer.

OTHER INFORMATION *(Continued)*

CORPORATE GOVERNANCE *(Continued)*

- (2) for the purposes of corporate governance enhancements and better compliance with applicable requirements under the Listing Rules, the Company has adopted the Preapproval Policies and Procedures relating to Independent Auditor's Non-Assurance Services. The Preapproval Policies and Procedures provide (among others) that (a) those charged with governance within the Company or their delegate(s) (TCWG, and in the present context, the Company's audit committee and the Board or their delegate namely Mr. LAU Siu Ki as the chairman of the Company's audit committee) are required to preapprove/concur with all non-assurance services provided by the independent auditor of the Company to ensure that such services do not impair the auditor's independence; (b) TCWG may periodically revise the list of preapproved non-assurance services; (c) the term of any preapproval/concurrence is for the one-year period following the date of authorisation unless TCWG specifically notes otherwise; and (d) non-assurance services that do not receive TCWG's general preapproval/concurrence will require TCWG's specific review and preapproval/concurrence before the non-assurance service begins.

The Company has applied and complied with all the code provisions set out in Part 2 of the CG Code during the current period.

The code provision contained in Paragraph C.2.1 of Part 2 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 C.2.1 of Part 2 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, 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,

OTHER INFORMATION *(Continued)*

CORPORATE GOVERNANCE *(Continued)*

particularly when the Group had made a consolidated net loss on an annual basis since 2017 until 2020 and recorded a consolidated net profit for 2021 but turned back to a consolidated net loss for 2022 and also the current period. 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 seven 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 and maintained a number of internal control measures to highlight the roles of the executive directors (other than the acting chairman), non-executive directors (including independent non-executive directors) and senior management 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 C.2.1 of Part 2 of the CG Code during the current period. The Board therefore considers that the circumstances justify the adoption of the arrangement for the chief executive officer to serve also as the acting chairman, and considers that this arrangement is currently in the best interests of the Company and its shareholders as a whole.

In the spirit of better corporate governance, the Board will periodically review the effectiveness of this arrangement (and introduce further measures, if necessary) and, through the Company's nomination committee, will endeavour to find a suitable candidate to assume the duties as the chairman of the Company at the right and appropriate time, thereby separating the roles of chairman and chief executive as prescribed under the code provision contained in Paragraph C.2.1 of Part 2 of the CG Code.

On behalf of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 9 August 2023