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
2024

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CORPORATE INFORMATION

as of 9 August 2024

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 *(Chairman)*
LIN Chia-Yi (also known as Charles LIN) *(Chief Executive Officer)*
KUO Wen-Yi

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

Registered Office

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8th Floor, Peninsula Tower
538 Castle Peak Road
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Kowloon
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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Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
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Wanchai
Hong Kong

Stock Code

2038

Website

https://www.fihmobile.com

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 31, which comprise the condensed consolidated statement of financial position as of 30 June 2024 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 notes to the condensed consolidated financial statements. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 2024

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	NOTES	Six months ended 30.6.2024 US$'000 (unaudited)	30.6.2023 US$'000 (unaudited)
Revenue	3	**1,895,530**	2,676,717
Cost of sales		**(1,866,908)**	(2,637,096)
Gross profit		**28,622**	39,621
Impairment loss under expected credit loss model, net of reversal		**(1,423)**	(50,744)
Other income, gains and losses		**43,048**	132,730
Selling expenses		**(2,161)**	(5,683)
General and administrative expenses		**(47,171)**	(90,181)
Research and development expenses		**(23,799)**	(26,459)
Interest expenses		**(30,318)**	(23,551)
Share of profit (loss) of associates		**6,780**	(3,245)
Share of loss of a joint venture		**(2,891)**	(2,089)
Loss before tax		**(29,313)**	(29,601)
Income tax expense	4	**(2,330)**	(20,234)
Loss for the period	5	**(31,643)**	(49,835)
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
– Fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income		**36**	(78,922)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(25,419)**	(73,482)
Share of translation reserve of associates		**1,727**	(692)
Share of translation reserve of a joint venture		**(781)**	48
		(24,473)	(74,126)
Other comprehensive expense for the period		**(24,437)**	(153,048)
Total comprehensive expense for the period		**(56,080)**	(202,883)

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

For the six months ended 30 June 2024

	NOTE	Six months ended 30.6.2024 US$'000 (unaudited)	30.6.2023 US$'000 (unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(31,578)**	(50,016)
Non-controlling interests		**(65)**	181
		(31,643)	(49,835)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(55,848)**	(203,322)
Non-controlling interests		**(232)**	439
		(56,080)	(202,883)
Loss per share	7		
Basic		**(US0.4 cent)**	(US0.6 cent)
Diluted		**(US0.4 cent)**	(US0.6 cent)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024

	NOTES	30.6.2024 US$'000 (unaudited)	31.12.2023 US$'000 (audited)
Non-current assets			
Property, plant and equipment	8	**617,217**	639,374
Right-of-use assets	8	**37,609**	39,019
Investment properties		**322**	406
Equity instruments at fair value through other comprehensive income		**62,904**	62,002
Interests in associates		**24,680**	25,270
Interest in a joint venture		**10,431**	14,103
Deferred tax assets	9	**19,628**	18,790
Deposit for acquisition of right-of-use assets		**26,737**	26,908
Other receivables	5	**34,404**	34,625
		833,932	860,497
Current assets			
Inventories		**1,226,500**	591,557
Trade and other receivables	10	**849,081**	971,716
Bank deposits		**58,798**	50,343
Cash and cash equivalents		**1,705,805**	1,845,323
		3,840,184	3,458,939
Current liabilities			
Trade and other payables	11	**1,849,124**	1,643,013
Contract liabilities		**378,782**	331,543
Lease liabilities		**1,490**	1,235
Bank borrowings	12	**865,800**	703,676
Provision	13	**1,880**	2,014
Tax payable		**52,624**	55,484
		3,149,700	2,736,965
Net current assets		**690,484**	721,974
Total assets less current liabilities		**1,524,416**	1,582,471

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2024

	NOTES	**30.6.2024 US$'000 (unaudited)**	31.12.2023 US$'000 (audited)
Capital and reserves			
Share capital	*14*	**315,380**	316,200
Reserves		**1,186,481**	1,242,287
Equity attributable to owners of the Company		**1,501,861**	1,558,487
Non-controlling interests		**2,653**	2,885
Total equity		**1,504,514**	1,561,372
Non-current liabilities			
Deferred tax liabilities	*9*	**11,214**	11,236
Deferred income	*15*	**6,767**	7,119
Lease liabilities		**1,921**	2,744
		19,902	21,099
		1,524,416	1,582,471

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2024

	Attributable to owners of the Company												
	Share capital US$'000	Share premium US$'000	Share bought-back pending cancellation US$'000	Special reserve US$'000	Revaluation reserve US$'000	Other reserve US$'000	Legal reserve US$'000	Translation reserve US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
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	–	–	(1,167)	–	–	–	–	–	–	–	(1,167)	–	(1,167)
Cancellation of ordinary shares	(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 17)*	–	–	–	–	–	–	–	–	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 CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2024

	Attributable to owners of the Company												
	Share capital US$'000	Share premium US$'000	Share bought-back pending cancellation US$'000	Special reserve US$'000	Revaluation reserve US$'000	Other reserve US$'000	Legal reserve US$'000	Translation reserve US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2024 (audited)	316,200	1,173,189	(714)	15,514	(146,721)	222	176,419	(101,284)	(221)	125,883	1,558,487	2,885	1,561,372
Loss for the period	–	–	–	–	–	–	–	–	–	(31,578)	(31,578)	(65)	(31,643)
Other comprehensive income (expense) for the period	–	–	–	–	36	–	–	(24,306)	–	–	(24,270)	(167)	(24,437)
Total comprehensive income (expense) for the period	–	–	–	–	36	–	–	(24,306)	–	(31,578)	(55,848)	(232)	(56,080)
Repurchase of ordinary shares *(note 14)*	–	–	(734)	–	–	–	–	–	–	–	(734)	–	(734)
Cancellation of ordinary shares *(note 14)*	(820)	(628)	1,448	–	–	–	–	–	–	–	–	–	–
Profit appropriations	–	–	–	–	–	–	5,574	–	–	(5,574)	–	–	–
Payment made for equity-settled share-based payments	–	–	–	–	–	–	–	–	(276)	–	(276)	–	(276)
Recognition of equity-settled share-based payment *(note 17)*	–	–	–	–	–	–	–	–	232	–	232	–	232
Balance at 30 June 2024 (unaudited)	315,380	1,172,561	–	15,514	(146,685)	222	181,993	(125,590)	(265)	88,731	1,501,861	2,653	1,504,514

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2024

	Six months ended	
	30.6.2024	30.6.2023
	US$'000	US$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(197,369)**	(628,791)
Investing activities		
Purchase of property, plant and equipment	**(57,552)**	(35,235)
Net cash outflow from bank deposits for investing purpose	**(8,455)**	(22,625)
Purchase of equity instruments at fair value through other comprehensive income	**(860)**	(32)
Proceeds from disposal of equity instruments at fair value through other comprehensive income	**–**	24
Proceeds from disposal of property, plant and equipment	**7,202**	9,795
Proceeds from disposal of investment properties	**–**	9,834
Dividend income from an associate	**9,864**	–
Net cash used in investing activities	**(49,801)**	(38,239)
Financing activities		
Bank borrowings raised	**1,305,800**	755,743
Bank borrowings repaid	**(1,143,676)**	(623,905)
Payments on repurchase of ordinary shares	**(734)**	(1,167)
Interest on bank borrowings paid	**(31,838)**	(21,782)
Repayment of lease liabilities	**(2,505)**	(1,172)
Interest on lease liabilities paid	**(196)**	(171)
Net cash from financing activities	**126,851**	107,546
Net decrease in cash and cash equivalents	**(120,319)**	(559,484)
Cash and cash equivalents at 1 January	**1,845,323**	1,825,109
Effect of foreign exchange rate changes	**(19,199)**	(24,227)
Cash and cash equivalents as at 30 June, representing bank balances and cash	**1,705,805**	1,241,398

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

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 the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2023.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2024 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 16	Lease Liability in a Sale and Leaseback
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IAS 1	Non-current Liabilities with Covenants
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements

The application of the 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.

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$1,895,530,000 (2023: US$2,676,717,000), 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	
	30.6.2024	30.6.2023
	US$'000	US$'000
	(unaudited)	(unaudited)
Segment revenue (external sales)		
Asia	**1,067,385**	1,874,505
Europe	**286,467**	346,479
America	**541,678**	455,733
Total	**1,895,530**	2,676,717
Segment profit (loss)		
Asia	**9,367**	37,096
Europe	**4,154**	(42,265)
America	**11,517**	10,790
	25,038	5,621
Other income, gains and losses	**43,048**	110,303
General and administrative expenses	**(47,171)**	(90,181)
Research and development expenses	**(23,799)**	(26,459)
Interest expenses	**(30,318)**	(23,551)
Share of profit (loss) of associates	**6,780**	(3,245)
Share of loss of a joint venture	**(2,891)**	(2,089)
Loss before tax	**(29,313)**	(29,601)

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Majority of the Group's sales to Asian customers are attributed to mainland China and Republic of India.

Segment profit represents the gross profit earned (loss incurred) by each segment 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	
	30.6.2024	30.6.2023
	US$'000	US$'000
	(unaudited)	(unaudited)
Current tax:		
– Hong Kong	**–**	–
– Other jurisdictions	**3,221**	22,735
	3,221	22,735
Deferred tax *(note 9)*		
Current period	**(891)**	(2,501)
	2,330	20,234

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

Tax charge mainly consists of income tax in mainland China attributable to the assessable profits of the Company's subsidiaries established in mainland China. Under the law of mainland China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of mainland China subsidiaries is 25% (2023: 25%). One of the Company's mainland China subsidiaries was 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. Except for this subsidiary, other mainland China subsidiaries are subject to Enterprise Income Tax at 25% (2023: 25%).

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

5. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2024	30.6.2023
	US$'000	US$'000
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**63,197**	77,593
Depreciation of right-of-use assets	**1,476**	1,724
Depreciation of investment properties	**35**	894
Total depreciation	**64,708**	80,211
Less: Amount capitalised in inventories	**(49,713)**	(61,905)
Less: Amount included in research and development expenses	**(1,523)**	(2,328)
	13,472	15,978
Cost of inventories recognised as expense	**1,862,281**	2,619,925
Provision for warranty	**1,260**	1,384
Write down of inventories to net realisable value	**3,367**	15,787
Net exchange (gain) loss *(note a)*	**(11,851)**	6,517
Loss on disposal of property, plant and equipment *(note a)*	**5,139**	2,235
Interest income from bank deposits *(note a)*	**(27,700)**	(24,159)
Gain on disposal of investment property *(note b)*	**–**	(78,452)

Notes:

(a) Amounts included in other income, gains and losses.

(b) On 2 November 2022, the Group entered into the compensation agreement (the "Agreement") with government authority in Hangzhou, Zhejiang Province, the People's Republic of China (the "Purchaser"). Pursuant to the Agreement, the Purchaser shall resume the ownership of a property, 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 People's Republic of China) (the "Property"), which was classified as investment property, at a cash compensation of Renminbi ("RMB") 607,669,300 (equivalent to approximately US$87,261,000), details of which are set out in the Company's discloseable transaction announcement dated 2 November 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 the Property. The carrying amount of investment property at date of disposal was US$8,809,000, resulting in a gain on disposal of investment property of US$78,452,000 which was included in "other income, gains and losses" during the period ended 30 June 2023. The remaining balance of compensation which the Group has yet to receive is US$34,404,000 (31.12.2023: US$34,625,000) which was included in "other receivables" under non-current assets as at 30 June 2024.

6. DIVIDENDS

No dividend was paid, declared or proposed for the six months ended 30 June 2024 and 30 June 2023.

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	
	30.6.2024	30.6.2023
	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	**(31,578)**	(50,016)

	Six months ended	
	30.6.2024	30.6.2023
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**7,887,522,863**	7,919,157,807

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 17(b) because it is anti-dilutive.

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

During the current period, the Group acquired property, plant and equipment of approximately US$57,552,000 (for the six months ended 30 June 2023: US$35,235,000).

In addition, the Group entered into a new lease agreement with lease term of three years (for the six months ended 30 June 2023: several new lease agreements with lease term of two to three years). On lease commencement, the Group recognised right-of-use assets of approximately US$1,951,000 (for the six months ended 30 June 2023: US$2,649,000) and lease liabilities of US$1,951,000 (for the six months ended 30 June 2023: US$2,649,000).

During the current period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of US$12,341,000 (for the six months ended 30 June 2023: US$12,030,000) for proceeds of US$7,202,000 (for the six months ended 30 June 2023: US$9,795,000), resulting in a loss on disposal of US$5,139,000 (for the six months ended 30 June 2023: US$2,235,000).

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 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)
At 1 January 2024 (audited)	**(1,861)**	**(2,970)**	**(4,892)**	**2,169**	**(7,554)**
Credit to profit or loss for the period	**(25)**	**(465)**	**–**	**(401)**	**(891)**
Exchange adjustments	**2**	**(6)**	**–**	**35**	**31**
At 30 June 2024 (unaudited)	**(1,884)**	**(3,441)**	**(4,892)**	**1,803**	**(8,414)**

Note: Others mainly represent temporary difference arising from accrued expenses and other receivables from disposal of investment properties.

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:

	30.6.2024 US$'000 (unaudited)	31.12.2023 US$'000 (audited)
Deferred tax assets	**(19,628)**	(18,790)
Deferred tax liabilities	**11,214**	11,236
	(8,414)	(7,554)

9. DEFERRED TAXATION *(Continued)*

At 30 June 2024, 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$324,172,000 (31.12.2023: US$325,885,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 30 June 2024, the Group has unused tax losses of approximately US$1,105,694,000 (31.12.2023: US$1,060,455,000) available for offset against future profits. As at 30 June 2024, a deferred tax asset has been recognised in respect of approximately US$19,437,000 (31.12.2023: US$19,437,000) of such losses. As at 30 June 2024, no deferred tax asset has been recognised in respect of the remaining tax losses of US$1,086,257,000 (31.12.2023: US$1,041,018,000) 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$654,900,000 (31.12.2023: US$534,221,000) 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 mainland China 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$942,335,000 (31.12.2023: US$917,198,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

10. TRADE AND OTHER RECEIVABLES

	30.6.2024 US$'000 (unaudited)	31.12.2023 US$'000 (audited)
Trade receivables	**843,562**	958,516
Less: Allowance for credit losses	**(219,274)**	(225,333)
	624,288	733,183
Other taxes recoverable	**117,710**	122,291
Other receivables, deposits and prepayments	**107,083**	116,242
Total trade and other receivables	**849,081**	971,716

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:

	30.6.2024 US$'000 (unaudited)	31.12.2023 US$'000 (audited)
0 – 90 days	**561,679**	685,387
91 – 180 days	**51,660**	39,082
181 – 360 days	**9,266**	7,733
Over 360 days	**1,683**	981
	624,288	733,183

As at 30 June 2024, the Group provided impairment allowance of US$219,274,000 (31.12.2023: US$225,333,000) based on the Group's expected credit loss assessment on its trade receivables.

11. TRADE AND OTHER PAYABLES

	30.6.2024 US$'000 (unaudited)	31.12.2023 US$'000 (audited)
Trade payables	**1,312,368**	1,091,218
Other tax payables	**69,268**	78,216
Accrued staff costs and employee benefits	**114,626**	115,541
Others	**352,862**	358,038
	1,849,124	1,643,013

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

	30.6.2024 US$'000 (unaudited)	31.12.2023 US$'000 (audited)
0 – 90 days	**1,280,349**	1,049,531
91 – 180 days	**19,500**	28,469
181 – 360 days	**4,034**	4,476
Over 360 days	**8,485**	8,742
	1,312,368	1,091,218

12. BANK BORROWINGS

	30.6.2024 US$'000 (unaudited)	31.12.2023 US$'000 (audited)
Bank borrowings	**865,800**	703,676
Analysis of bank borrowings by currency:		
US$	**849,000**	703,676
Indian Rupee ("INR")	**16,800**	–

The bank borrowings as at the end of the reporting period are unsecured, with original maturity of one to four months (31.12.2023: one to seven months), repayable within one year and carry interest at fixed interest rates ranging from 5.88% to 8.07% (31.12.2023: 5.96% to 6.25%) per annum.

13. PROVISION

	Warranty provision US$'000
At 1 January 2023 (audited)	2,779
Exchange adjustments	(14)
Provision for the year	1,661
Utilisation of provision/upon expiry of the warranty period	(2,412)
At 31 December 2023 (audited)	2,014
Exchange adjustments	(28)
Provision for the period	1,260
Utilisation of provision/upon expiry of the warranty period	(1,366)
At 30 June 2024 (unaudited)	**1,880**

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

14. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2023, 31 December 2023 and 30 June 2024	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2023	7,938,739,000	317,550
Repurchase and cancellation of shares	(33,739,000)	(1,350)
Balance at 31 December 2023	7,905,000,000	316,200
Repurchase and cancellation of shares	(20,500,000)	(820)
Balance at 30 June 2024	**7,884,500,000**	**315,380**

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$0.04 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
January	4,400,000	0.60	0.58	2,594
March	5,500,000	0.51	0.47	2,728
April	800,000	0.51	0.50	403
	10,700,000			5,725
				US$'000
Equivalent to				734

10,700,000 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.

14. SHARE CAPITAL *(Continued)*

During the year ended 31 December 2023, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of US$0.04 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	HK$'000
January	6,739,000	0.87	0.84	5,764
March	4,000,000	0.85	0.83	3,374
August	3,031,000	0.77	0.68	2,160
September	5,969,000	0.72	0.66	4,115
November	3,000,000	0.60	0.58	1,756
December	9,800,000	0.61	0.54	5,590
	32,539,000			22,759
				US$'000
Equivalent to				2,908

22,739,000 ordinary shares were repurchased and cancelled during the year ended 31 December 2023. Remaining 9,800,000 ordinary shares were cancelled subsequently on 15 January 2024.

15. DEFERRED INCOME

	30.6.2024 US$'000 (unaudited)	31.12.2023 US$'000 (audited)
Government subsidies	**6,767**	7,119

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

16. CAPITAL COMMITMENTS

	30.6.2024 **US$'000** **(unaudited)**	31.12.2023 US$'000 (audited)
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**30,603**	32,025

17. 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 retained eligible person. 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 circular dated 14 April 2023, which were 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.

No share option expenses was recognised by the Group for the six months ended 30 June 2024 and 30 June 2023.

Currently, no option has been outstanding under the Existing Share Option Scheme. No share option is exercisable for both periods.

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

(b) Other share-based payment plan

On 23 November 2013, the Company adopted a share scheme (the "Former Share Scheme") for the Company to reward, motivate and retained eligible person. 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 the Existing Chapter 17, pursuant to the approval of the board of directors of the Company (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 share has been granted under the Existing Share Scheme, save as otherwise disclosed herein.

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 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.

Pursuant to the approval of the Board on 13 September 2023 and the subsequent finalisation by the Board's delegate, the Company offered 1,366,993 ordinary shares to a beneficiary pursuant to the Existing Share Scheme of which 1,366,993 ordinary shares were granted with a lock-up period up to 12 September 2024 from the grant date, i.e. 13 September 2023. No consideration was payable on acceptance of offer of the shares. 1,366,993 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in September 2023.

Pursuant to the approval of the Board on 13 September 2023 and the subsequent finalisation by the Board's delegate, the Company offered 1,979,598 ordinary shares to a beneficiary pursuant to the Existing Share Scheme of which 1,979,598 ordinary shares were granted with a lock-up period up to 5 November 2024 from the grant date, i.e. 6 November 2023. No consideration was payable on acceptance of offer of the shares. 1,979,598 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2023.

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

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

Pursuant to the approval of the Board on 7 March 2024 and the subsequent finalisation by the Board's delegate, the Company offered 4,405,978 ordinary shares to a total of two beneficiaries pursuant to the Existing Share Scheme of which 4,405,978 ordinary shares were granted with lock-up periods up to 7 March 2025 from the grant date, i.e. 8 March 2024. No consideration was payable on acceptance of offer of the shares. 4,405,978 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in March 2024.

The fair value of the shares at the date of grant is measured by the quoted market price of the shares at the date of grant. Equity-settled share-based payments of US$232,000 was recognised during the six months ended 30 June 2024 (for the six months ended 30 June 2023: US$1,230,000).

18. 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 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).

18. 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 30.6.2024 US$'000 (unaudited)	Fair value as at 31.12.2023 US$'000 (audited)	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/relationship of unobservable inputs to fair value
Forward foreign exchange contracts included under other payables (2023: other receivables)	**Liabilities – 1,874**	Assets – 62	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 – 456**	Listed equity investments – 420	Level 1	Quoted bid prices in an active market	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments – 3,908**	Unlisted equity instruments – 25,228	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 – 58,540**	Unlisted equity instruments – 36,354	Level 3	Income approach – discounted cash flow method was used to capture the present value of the expected return	Budged sales and gross margin taken into account the relevant industry growth forecasts and financial budgets approved by the investee's management and expectation for the market development	The higher the budgeted sales and gross margin, the higher the fair value, and vice versa
					Terminal growth rate, taking into the account the management's experience and knowledge of market conditions of the specific industries	The higher the terminal growth rate, the higher the fair value, and vice versa
					Weighted average cost of capital ("WACC") was 21.10% (2023: 21.10%)	The lower the WACC, the higher the fair value, and vice versa

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTOCI US$'000
At 1 January 2023 (audited)	117,109
Transfer into Level 3 *(note a)*	6,335
Transfer out from Level 3 *(note b)*	(2,000)
Net unrealised fair value loss	(78,200)
Exchange adjustments	(247)
At 30 June 2023 (unaudited)	42,997
At 1 January 2024 (audited)	**36,354**
Transfer into Level 3 *(note a)*	**20,933**
Exchange adjustments	**1,253**
At 30 June 2024 (unaudited)	**58,540**

Notes:

(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 price 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.

19. RELATED PARTY DISCLOSURES

(a) During the current period, the Group entered into the following transactions with related parties, including 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only) ("Hon Hai"), and subsidiaries and associates of Hon Hai other than members of the Group:

	Six months ended	
	30.6.2024	30.6.2023
	US$'000	US$'000
	(unaudited)	(unaudited)
Hon Hai:		
Sales of goods	**427,670**	496,305
Purchase of goods	**22,021**	36,118
Purchase of property, plant and equipment	**2**	–
Lease expense – real properties *(Note)*	**302**	317
Sub-contracting income	**670**	26,067
Consolidated services and sub-contracting expense	**221**	2,262
General services income	**–**	44
Subsidiaries of Hon Hai:		
Sales of goods	**37,160**	21,864
Purchase of goods	**69,691**	72,281
Purchase of property, plant and equipment	**18**	363
Sales of property, plant and equipment	**2,288**	5,700
Lease income – real properties	**2,280**	2,947
Lease income – non-real properties	**–**	10
Lease expense – real properties *(Note)*	**2,882**	2,876
Lease expense – non-real properties *(Note)*	**14**	39
Sub-contracting income	**10,981**	11,736
Consolidated services and sub-contracting expense	**14,233**	15,232
General services income	**–**	195
General services expense	**3,336**	4,438
Associates of Hon Hai:		
Sales of goods	**103,243**	264,553
Purchase of goods	**74,136**	146,858
Purchase of property, plant and equipment	**670**	–
Lease income – real properties	**–**	18
Lease expense – real properties *(Note)*	**39**	42
Sub-contracting income	**4,515**	6,106
Consolidated services and sub-contracting expense	**636**	279
General services expense	**7**	8

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

19. 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:

	30.6.2024 US$'000 (unaudited)	31.12.2023 US$'000 (audited)
Trade receivables:		
Hon Hai	**262,689**	182,401
Subsidiaries of Hon Hai	**26,586**	22,251
Associates of Hon Hai	**45,434**	73,025
	334,709	277,677
Other receivables:		
Hon Hai	**7**	16
Subsidiaries of Hon Hai	**2,265**	2,410
	2,272	2,426
	336,981	280,103
Trade payables:		
Hon Hai	**10,206**	17,714
Subsidiaries of Hon Hai	**64,396**	45,423
Associates of Hon Hai	**36,286**	28,911
	110,888	92,048
Other payables:		
Hon Hai	**80**	72
Subsidiaries of Hon Hai	**1,936**	2,158
Associates of Hon Hai	**44**	20
	2,060	2,250
	112,948	94,298

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

19. 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	
	30.6.2024	30.6.2023
	US$'000	US$'000
	(unaudited)	(unaudited)
Short-term benefits	**1,777**	1,187
Share-based payments	**232**	1,230
	2,009	2,417

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

	Six months ended	
	30.6.2024	30.6.2023
	US$'000	US$'000
	(unaudited)	(unaudited)
Sales of goods	**–**	8,197
Other income	**3,347**	653

The amount due from a joint venture was US$9,685,000 (31.12.2023: US$10,784,000), which were included in trade and other receivables (31.12.2023: trade and other receivables), as at 30 June 2024. Balances due from a joint venture is unsecured, interest free and repayable within one year.

19. RELATED PARTY DISCLOSURES *(Continued)*

(e) During the current period, the Group entered into the following transactions with an associate:

	Six months ended	
	30.6.2024	30.6.2023
	US$'000	US$'000
	(unaudited)	(unaudited)
Sales of goods	**3,901**	–
Other income	**1,191**	1,520

The amounts due from associates were US$3,971,000 (31.12.2023: US$4,181,000), which were included in trade and other receivables (31.12.2023: trade and other receivables), as at 30 June 2024. Balances due from associates are unsecured, interest free and repayable within one year.

20. APPROVAL

The condensed consolidated financial statements on pages 4 to 31 were approved and authorised for issue by the Board on 9 August 2024.

BUSINESS REVIEW

IMPORTANT

The consolidated interim results of the Group for the six-month period ended 30 June 2024 (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 continue to fluctuate (possibly significantly) in the future from one period/quarter to another. Accordingly, the Group's results of operations for any period/quarter should not be considered indicative of the results expected for any future periods/quarters. In particular, the Chinese New Year holiday (especially a long break in mainland China, Vietnam, and Taiwan) in the first quarter of each year generally leads to a low season post-Chinese New Year for the industry in which the Group operates. Therefore, the Group's performance in the first quarter is usually worse and not as comprehensive and representative compared to the other quarters.

The Company refers to its announcement regarding the update on expected 2024 interim performance dated 3 May 2024 and its announcement relating to additional inside information about expected 2024 interim performance dated 26 July 2024 respectively, which provided (among other things) certain updates on its expected 2024 interim performance and included information about the various factors that contributed to the Group's consolidated net loss for the current period. The various factors described in the following "Discussion and Analysis" section, are expected to continuously impact the Group's performance in the second half of 2024 (2H 2024) and ultimately the full year ending 31 December 2024 (FY 2024). In this respect, please also refer to "Outlook and Industry Dynamics" below.

This interim report contains forward-looking statements regarding the Company's expectations and outlook on the Group's order book, business operations, performance, financial conditions, opportunities, risks, threats, and prospects. Such forward-looking statements are subject to known and unknown risks, uncertainties, and other uncontrollable factors, and therefore do not constitute guarantees of the future performance and order book of the Group. They are subject to factors that could cause the Group's actual results and order book to differ (possibly materially or significantly) from those expressed in the forward-looking statements. For details of the risks and uncertainties, please refer to the "Risk and Opportunities in 2024" section.

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 and macro 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/significantly from those indicated. Additionally, new and unpredictable risks, challenges, and threats emerge from time to time, and it is not possible for 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 and Industry Dynamics" 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, shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

DISCUSSION AND ANALYSIS

Introduction

The Company was activated in 2003 and listed on the Main Board of the Stock Exchange in 2005 (Stock code: 2038.HK). The Company is one of the subsidiaries of Hon Hai Technology Group, which is the world's largest electronics manufacturer and a leading technological solution provider whose shares are listed on the Taiwan Stock Exchange Corporation (Stock code: 2317.TW).

The Group is customer-centric and offers one-stop solutions that encompass the entire product lifecycle. Our services range from initial design conceptualisation and product development to high-volume manufacturing, providing a seamless end-to-end experience for our clients. Our wide array of services includes innovative product development and design, precision casings and components manufacturing, PCBA (Printed Circuit Board Assembly), full-system assembly integration, supply chain services and solutions, and after-market support which includes return management and product repair/refurbishment solutions. The Group excels in both OEM (Original Equipment Manufacturing) and ODM (Original Design Manufacturing) capabilities, catering to meet specific market and customer product lifecycle requirements.

As for the product portfolio, the Group has accumulated decades of experience in handsets, other wireless communication devices, consumer electronic products and accessories and related areas such as tablets, smart wearables, eReaders, smart speakers, AR/VR glasses, drones. By leveraging its technological strengths and talent advantages, the Group has implemented its "2+2" strategy, actively expanding into automotive electronics, robotics, artificial intelligence, and next-generation communication technologies in recent years, achieving significant progress and results.

Our core strength lies in providing product and software development and manufacturing solutions of high complexity that require strong engineering, technical, and design proficiency. Besides, 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. Moreover, the Group operates a network of sites strategically located in mainland China, India, Vietnam, Taiwan, Mexico and the United States of America (the "U.S.") which can fulfill customers' requirements in different countries and reduce the landed costs of products. By leveraging our geographically diverse, large-scale manufacturing infrastructure and our ability to serve a wide range of end markets, our customers gain significant advantages including meeting their product requirements at every stage, reducing manufacturing costs, enhancing their supply chain management and efficiency, reducing inventory obsolescence, and accelerating both time-to-volume and time-to-market, allowing our clients to respond swiftly to market demands and maintain a competitive edge in their respective industries.

The first half of 2024 presented a complex global economic landscape characterised by modest growth amidst ongoing challenges. While the world economy demonstrated resilience, recovery remained uneven across regions and sectors. Major economies faced challenges and showed varied growth patterns in the first two quarters. According to the government data, the U.S. experienced moderate growth influenced by high interest rates, falling inventories, and rising imports, while mainland China, despite recording stronger growth driven by robust performances in the industrial and services sectors, continuously faced headwinds in its property sector and domestic consumption. Other emerging markets presented a mixed picture, with India standing out as a bright spot driven by strong domestic demand and increased foreign investments.

DISCUSSION AND ANALYSIS *(Continued)*

Introduction *(Continued)*

On the other hand, inflationary pressures, while moderating in some regions, remained a concern for central banks worldwide. The Federal Reserve System ("FED"), in particular, maintained elevated interest rates throughout the first half of 2024 and inevitably impacted economic growth and the business environments. Furthermore, the geopolitical landscape remained fraught with tensions that continued to impact global trade and investment decisions. Ongoing trade disputes between major economies, escalating regional and global conflicts, elections held in more than 80 countries, and the changing nature of national security – extending beyond traditional defense to energy sources, supply chains, and cybersecurity – have been reshaping international relations and business environments, adding a layer of uncertainty to the business environment.

Regarding the global smartphone market, it showed signs of improvement in the first half of 2024, mainly driven by widespread 5G adoption, the integration of Artificial Intelligence (AI) technologies, and improved inventory conditions. However, despite these positive developments, the industry continued to grapple with several significant challenges such as market saturation in mature economies, intensified competition, extended replacement cycles, and a lack of product differentiation and innovation. The excess manufacturing capacity at many of our competitors has directly deteriorated pricing and put competitive pressure on the EMS industry as a whole. In addition, due to political factors, some of our customers' emphasis on localisation and preference for local suppliers has had a direct impact on our orders and this strategic decision is driven by the need to align with local regulations and ensure stability amid political uncertainties. These challenging conditions persisted throughout the first half of 2024, impacting the Group's performance.

These macroeconomic and market factors have significantly influenced our operating environment. To navigate the challenges presented by the global economic landscape, the Group has strategically restructured its business operations and enhanced its business development capabilities. The Group has continuously streamlined its operations through strategic consolidation, downsizing, and cost and operating expenses cutting, aiming to become an asset-light corporate group and a lean, flat, and agile organisation. Concurrently, the Group has remained committed to innovation, operational excellence, and customer-centric strategies to better capitalise on emerging opportunities. Our technological capabilities, coupled with strong industry partnerships and diversified manufacturing bases, position us well to navigate the evolving market landscape and drive sustainable growth. In this reporting period, the Group has achieved significant milestones in the fields of automotive electronics and AI-enabled robotics solutions. Our advancements in automotive electronics mark a pivotal achievement, characterised by the successful deployment of cutting-edge technologies that enhance vehicle safety, efficiency, and connectivity. Additionally, by integrating artificial intelligence with robotics, we have developed versatile and intelligent systems capable of addressing complex tasks from manufacturing to environmental services industry.

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees

Key Relationships with Customers

The Group's top five customers during the current period accounted for approximately 85.30% of the Group's total revenue. In the first half of 2024, not to mentioned a traditional low season for consumer electronics, most of the Group's customers encountered uncertainties from macroeconomic and market challenges. Regarding the smartphone market, while the first half of 2024 saw encouraging signs of recovery globally as inventory replenishment took place, yet, the fierce competition in the Chinese market and geopolitical issues led one of our major customers to adjust their manufacturing strategy. This customer has actively sought new manufacturing partners in mainland China and India, significantly reducing its outsourcing to our company. As a result, our sales to this customer have been substantially impacted. However, the Group has maintained its long-standing relationship with an established U.S.-based Internet company. With 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 demands. This U.S.-based leading Internet company customer has continued to put effort into integrating more advanced AI capabilities into its devices and has made some progress. Moreover, the Group has also established and nurtured a promising relationship with a renowned company that offers cutting-edge gaming phones and has provided credible products to it.

Two of the Group's top five customers are members of Hon Hai Technology Group: Hon Hai and Sharp Corporation ("Sharp"). The revenue generated from sales of goods and services to Hon Hai and Sharp accounted for approximately 22.60% and 5.63%, respectively, of the Group's total revenue from goods and services. In the current period, revenue attributable to the Hon Hai Technology Group accounted for approximately 30.79% of the Group's total revenue:

(I) Hon Hai acquired Ensky Technology Pte. Ltd. ("Ensky") on 1 January 2020 as a wholly-owned subsidiary of Hon Hai. Ensky has a long-established relationship with U.S. customers and sells consumer electronic products to them and the Group has been the strategic supplier and manufacturer of consumer electronic products such as eReaders, tablets, and voice interaction products for Ensky for a sustained period of time. Due to the change of its business model since 2022, the buying entity was gradually transitioned from Ensky to Hon Hai and therefore Hon Hai has become a major customer of the Group.

(II) Sharp is a connected person of the Group as it is an associate of Hon Hai, pursuant to the Listing Rules. Sharp offers a variety of electronic products including smart phones, home appliances, displays and other IoT devices. In addition to mobile phone products, Sharp continues to explore the non-mobile phone business and has offered other electronic devices such as MiFi routers and tablets, leveraging the Group's R&D resources and capabilities.

DISCUSSION AND ANALYSIS *(Continued)*

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

Key Relationships with Customers *(Continued)*

In the past, the Group has derived a substantial portion of its sales from a relatively small number of customers, products, and geographical markets and such dependency has posed risk to the Group's performance. To safeguard against market concentration risk and ensure gradual recovery and long-term sustainability, the Group has implemented a multi-faceted approach focusing on diversification, innovation, and operational resilience, while also exploring new market opportunities, actively developing new customers, and strengthening existing customer relationships. These proactive measures are crucial in navigating the ever-changing dynamics of the industry. The strategies include the following key initiatives:

(I) Optimising capacity utilisation while focusing on cost-cutting, consolidating sites, re-organising operations, and terminating unprofitable, low-margin, or underperforming operations due to the shrinkage of the Chinese business.

(II) Dedicating resources to make mid-term and long-term investment in technological competence and building long-term relationships with leading companies by providing high value-added, high-quality products, and services at competitive prices. We aim to expand these relationships to include more product lines and services.

(III) Expanding our overseas production capacity to meet customers' regional needs. We have successfully capitalised on the growth of domestic markets in some countries and have continued to actively develop new customers across different industries, thereby diversifying both our customer and product base, capitalising on the Group's core competence in telecommunications.

(IV) Addressing low demand visibility, we are strategically positioning key account managers in diverse regions to enhance client proximity, improving communication, and insight into demand patterns. We are also expanding our service and product offerings to increase contract wins and improve demand visibility. Clear demand visibility is vital for efficient production and enterprise resource planning.

(V) Exploring new projects, products, industry sectors, and customer development in different countries, leveraging our existing products, services, and expertise.

At the same time, the Group remains dedicated to constantly increasing its competitive advantages and core competencies. For instance, the Group is committed to enhancing its competitiveness through continuous innovation in various technological domains, including software development, cloud computing, AI, automation, and advanced manufacturing technologies. This R&D focus extends beyond mobile phones to encompass a wide range of products such as IoT devices, automotive solutions, and environmental, social and governance ("ESG")-friendly technologies. Drawing on over 20 years of expertise in mobile devices and telecommunications, the Group has applied this knowledge to develop high-quality Telematics Boxes for automotive manufacturers, offering solutions that outpace traditional vendors in speed and quality. The Group's proficiency in antenna design, thermal management, and software integration has already resulted in supplying products to a world-class automobile manufacturer, with plans for further expansion in this sector. Additionally, the Group is also investing in next-generation communication technologies, including LEO ground user terminals and 6G Non-Terrestrial Networks technology. Moreover, we continuously enhance our cost competitiveness by improving supply chain flexibility, optimising resources, and exploring diversified collaboration models to meet the unique needs of different customers. Moreover, our customer-focused factories are flexible and adaptable and can be reconfigured as needed to meet customer-specific product requirements and volume fluctuations. These efforts are pivotal to our success, competitiveness, customer retention, and long-term sustainability in the dynamic and highly competitive industry.

DISCUSSION AND ANALYSIS *(Continued)*

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

Key Relationships with Suppliers

In collaboration with internal engineering teams, the Group sources components and materials from Hon Hai and 1,206 reputable suppliers globally, fostering stable business relationships and employing a dedicated team to monitor supply-demand balances and market risks. A key aspect of our supply chain risk management strategy involves maintaining on-time delivery of quality materials at competitive prices while avoiding over-reliance on certain key supply source. This is a continuous challenge for the procurement team, which also manages the cost of critical materials and takes necessary actions to balance inventory, outstanding purchase orders, and working capital. To manage material cost increases without raising prices, the Group keeps a substantial cash reserve, ensuring operational resilience and stability.

The Group's supply partners, who provide basic materials and components such as chipsets, memory, electronic parts, display modules, camera modules, batteries, connectors, enclosures, and packaging material, are selected through a clear set of requirements developed over a long history of supply management. Vendors are required to undergo a thorough evaluation and qualification process within the Group and vendor performance is measured using the TQSCE (Technology, Quality, Supply, Cost, and ESG) framework.

The Group continuously monitors supply availability and price fluctuations, and our diversified procurement strategy has proven effective in minimising supply disruption risk. The Group may occasionally struggle to secure sufficient supply to meet production schedules, which can result in challenges with publishing order books and shipment volume forecasts on a regular basis. The top five suppliers account for approximately 44.6% of the Group's total purchases, reflecting a deliberate consolidation strategy to ensure ease of procurement, supply continuity, and favorable commercial terms, particularly in pricing. The Group has cultivated long-standing, well-developed business partnerships with these top suppliers, however none of which are contractually obligated to maintain manufacturing capacity or guarantee minimum supply. This arrangement helps manage liability exposure effectively. Despite securing best-in-class pricing through purchase consolidation, the Group plans and maintains a safety buffer above demand to mitigate supply disruption risks. Customers are kept informed of ongoing supply challenges, and contingency plans are in place to be activated as needed. The Group also maintains a roster of alternative sources to ensure flexibility in its supply chain.

The Group does not foresee significant market fluctuations affecting material costs or supply delays when engaging with new supply sources. The Group's capacity to secure industry-leading material pricing showcases its procurement expertise and commercial strength, which are core competencies built upon the benefits leveraged through the scale of operations, bulk purchase volumes, and continuous market engagement.

Hon Hai Technology Group is a major supplier of the Group, accounting for approximately 7.9% of the Group's total purchases in 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.

Maintaining an agile balance between demand and supply is vital for the Group's business success. For an in-depth understanding, please refer to "The Group's Value Chain" in the Company's 2023 environmental, social, and governance report (2023 ESG Report), published concurrently with the Company's 2023 annual report. In light of the risks stemming from reliance on major customers and suppliers, the Group has devised and adhered to a business plan aimed at diversifying its customer base, product categories, and supply mix. Robust internal control systems and Enterprise Risk Management (ERM) are in place to evaluate and mitigate such risks. Further information can be found in the "Accountability and Audit" section of the Company's 2023 corporate governance report.

DISCUSSION AND ANALYSIS *(Continued)*

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

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, much of the training that had started as face-to-face in classroom environments has been pursued online. The Group prides itself on providing a safe, effective and congenial working environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been arranged and implemented to ensure a healthy and safe working environment.

The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, training and development, knowledge building, motivations, rewards and retention, as well as localisation. The Group complies with relevant labour laws and regulations to protect employees' rights and interests. The Group always emphasises employee benefits as well as harmonious labour relations, and highly values employees' opinions and feedbacks. In order to communicate effectively with staff, the Group provides channels like e-meetings, emails, or mail boxes for employees to reflect 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 Group 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 Group and its shareholders as a whole and enhance the Group's competitiveness and long-term sustainability.

DISCUSSION AND ANALYSIS *(Continued)*

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

Key Relationships with Employees *(Continued)*

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 of the underperforming parts of its manufacturing operations and disposing idle assets, moving production between facilities and reducing the level of staff, realigning our business process and reorganising our management, largely to align our capacity and infrastructure with current and anticipated customer demand. During the change, the Group is transparent to employees what's the current situation and the improvement action must been taken to earn their understanding and trust. Remaining transparent also helps keep rumors to a minimum to reduce retained employees worry on job security. By understanding the Company vision, let each staff know exactly where they stand, and new job responsibilities they may have, employees will likely stay engaged and be more positive during the downsizing.

(I) China sites: The employee size in China is reduced due to business downturn but our goals are to retain key talents for business transformation and maintain optimise headcount for more efficient operation.

(II) Vietnam site: Fushan Technology (Vietnam) Limited Liability Company ("Fushan") is always along with Global Strategy to aim for bringing our high-end service to our worldwide customers. Besides ensuring production and business, always satisfying customers, along with the company development, human factors, social responsibility, and environmental responsibility are also focused. 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 labor ("IDL") to be organised twice per year to help employees not only to refresh their mind after working time but also enhance sharing with each other and highly motivation from leadership to their subordinates. From January 2024 up till 30 June 2024, total 92% employees already attended IDL team building 1st time with high motivation to refresh and prepare for new plan and new task. Human cultivation focused on the development and growth of employees to maximise their potential and contribute effectively to the company. We are continuing with our strategy of "customised training courses by Business requirements and self-learning culture mindset" since 2022 and maintaining sustainability training program such as periodically re-training to enhance knowledge and responsibility for employee like: ESD training (654 trainees), Quality Awareness (over 660 trainees); Mandatory training: Sexual harassment preventive action in workplace (5,360 trainees); Code of Conduct ("CoC") & anti-corruption (3,720 trainees). In addition, we make new training course for human cultivation in accordance with career development, according to the job requirement & customer requirement.

(III) India site: Bharat FIH Limited ("BFIH") is undergoing significant leadership change and organisation consolidation in the first half of 2024, which is having impact on the employees. Therefore, understanding and managing these responses effectively is crucial for a smooth transition for those transferred to other business units of the Group. In the first half of 2024, we successfully setup new production lines in Tamil Nadu Site 2 ("TN2") campus and ramp up for our strategic client within 1 year by utilising global teamwork and resource in technologies and talents. By introducing new business and customers, HR continues to optimise the size of manpower but also recruit the right talent to meet the specific requirements and customer demand by establishing a talent pool for quicker access to pre-screened candidates. Having streamlined the application process and improved communication with candidates, resulting in a better satisfaction rate among applicants. We have strengthened our

DISCUSSION AND ANALYSIS *(Continued)*

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

Key Relationships with Employees *(Continued)*

partnerships with universities and educational institutions to create a steady pipeline of fresh graduates. Organised virtual hiring events to engage with potential candidates early. In the face of these changes, we have maintained the motivational level of the workforce through series of Learning and Engaging sessions mainly on COC compliance at 80%. In Andhra Pradesh ("AP") and Tamil Nadu ("TN") Site, the Direct Labour ("DL") engagement at dormitories and shop floor celebrations continued on Women's day, Holi, Pongal and planned Seasonal diseases awareness sessions, simultaneously ensured 100% grievances resolved in time without any delay. Lastly, HR has been 100% compliant to employee financial well-being in Employees' Provident Fund ("EPF") & Employees' State Insurance ("ESI") Contributions paid on time.

As of 30 June 2024, the Group had a total of 44,519 (31 December 2023: 36,657) employees. Total staff costs incurred during the current period amounted to US$116 million (US$132 million for the first half of 2023 and US$138 million for the second half of 2023). 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 and retention rate. In particular, further to the Company's circular as issued and published on 13 April 2023 and the Company's announcement dated 19 May 2023, the Company has adopted the existing share scheme (the "Existing Share Scheme") and the existing share option scheme (the "Existing Share Option Scheme") respectively on 19 May 2023 following the approval of its shareholders, pursuant to which (among other things) 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 Existing Share Scheme and the Existing Share Option Scheme respectively, please refer to the Company's circular as issued and published on 13 April 2023). Both the Existing Share Scheme and the Existing 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 section headed "Remuneration Committee – Directors' Remuneration Policy" of the Company's 2023 corporate governance report, forming part of the Company's 2023 annual report) as well as the recommendations of the Company's remuneration committee. Key ESG HR issues concern how a company engages with its workforce, with a strong focus on a culture incorporating inclusion and diversity, and how it looks at issues of pay and equality. FIH is focused on ensuring our Company is inclusive and socially conscious. For more details about the Group's key relationships with its employees, please refer to the section headed "People-Oriented" of the Company's separate 2023 ESG Report as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report.

DISCUSSION AND ANALYSIS *(Continued)*

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. However, peer analysis is complex due to differences in histories, backgrounds, company goals, business strategies, customer bases, market dynamics, organisational cultures, leadership, risk profiles, shareholder structures, business models, client profiles, revenue streams, product mixes, operational scales, product and service strategies, differentiation, market presence, geographical footprints, government support, ESG compliance, tax incentives, competitive advantages, core competencies, R&D capabilities, asset utilisation, cash flow positions, creditworthiness, dividend policies, capital structures, and cost structures. Accordingly, direct comparisons at the consolidated group account level may be challenging.

Profit and Loss Account

The global handset market continues to be adversely affected by various headwinds, including prolonged geopolitical tensions, slowdown of the general economy and slow economic recovery, limited visibility, inflationary pressure, high interest rates, commoditisation and increasing life cycle of smartphones. The Group reported consolidated revenue of US$1,895.5 million in the current period, a decrease of US$781.2 million or 29.2% from US$2,676.7 million in the same period last year. The year-over-year decrease in revenue was primarily affected by key factors including composition of customers, changes in the outsourcing strategies of the customer and mobile phone industry, uncertainties from macroeconomics. Apart from its sales to one major customer, which remained flat, the Group's sales to other major customers declined during the current period as some customers changed their outsourcing strategy, and the competition was keen. Despite the revenue decline, the Group has kept focusing on expanding non-mobile phone businesses, diversifying customer bases and optimising customer portfolio, implementing cost optimisation and expense-cutting measures, and managing potential risks to navigate the challenging business environment effectively. For details, please refer to the above "Introduction" and "Key Relationships with Customers".

The net loss attributable to owners of the Company for the current period was US$31.6 million, compared to US$50.0 million for the same period last year. Factors contributing to this include:

(I) Gross Profit: The Group recognised a gross profit of US$29 million in the current period, representing a decrease of US$11 million compared to US$40 million for the same period last year. The gross profit margin for the current period was 1.51%, compared to 1.48% for the same period last year. With strong execution, the Group successfully defended against margin erosion pressure. The deterioration in gross profit was due to the significant drop in sales revenue as a result of keen competition, and unabsorbed overheads resulting from comparatively low asset utilisation.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Profit and Loss Account *(Continued)*

(II) Operating Expenses: Regarding operating expenses, they amounted to US$73.1 million for the current period, compared to US$122.3 million for the same period last year, marking a decrease of US$49.2 million. Thanks to rightsizing and restructuring efforts implemented over the past few years, the Group has streamlined its operations. However, there is a need to continuously adjust its scale of operation to align with the actual business needs. Company-wide cost reduction initiatives and headcount reductions have resulted in annual savings, contributing to long-term cost and overhead reductions. Specifically, in the first half of 2023, the Group underwent significant rightsizing and restructuring in Northern China, incurring severance payments totaling US$18.9 million. During the current period, ongoing restructuring activities incurred losses, costs, and expenses totaling US$6.8 million. The Group remains committed to further reducing operating expenses by prioritising spending on future business initiatives, reducing indirect labor costs, preventing cost overruns, and reducing general and administrative expenses across the board. These efforts are expected to yield gradual favorable outcomes, reflecting the Group's dedication to enhancing efficiency and maintaining financial resilience amid evolving market conditions. However, addressing low asset utilisation remains a significant challenge for the Group. As for R&D expenses, the year-on-year decrease is primarily due to reduction in staff costs resulting from the decrease in R&D personnel following the restructuring and rightsizing initiatives, partially offset by heightened R&D activities for new projects.

(III) Other income, gains and losses: Other income, gains and losses for the current period were US$43.0 million, representing a decrease of US$89.7 million from that for the same period last year. It is mainly attributable to several factors, including the following:

(i) In the first half of 2023, the Group booked a before-tax gain of US$78.5 million from the disposal of certain land and building in Hangzhou. But in the current period, there was no such capital gain.

(ii) There was an increase in foreign exchange gain by US$18.4 million, amounting to US$11.9 million gain for the current period, compared to a loss of US$6.5 million in the first half of 2023. Sharp fluctuations in the RMB during the first half of 2023 resulted in foreign exchange losses for the Group. However, during the corresponding period in 2024, the FED's continued interest rate hikes to combat inflation led to sustained depreciation of the RMB against the United States dollars ("USD" or "US$"). This resulted in increased foreign exchange gains in the first half of 2024 from the forward contracts the Group had entered into, as well as increased revaluation gains on trade receivables denominated in USD.

(iii) There was an increase in interest income by US$3.5 million, totaling US$27.7 million in the first half of 2024, compared to US$24.2 million in the same period of 2023. Despite a slowdown in inflation over the past year, significant interest rate hikes by the FED have kept inflation considerably high relative to the FED's 2% target, indicating persistent inflationary pressures. Despite efforts by the Group to reduce borrowing in US dollars, interest expenses have increased by US$6.7 million, totaling US$30.3 million in the first half of 2024, compared to US$23.6 million in the same period of 2023 due to higher interest rates compared to the same period in 2023. The Group will repay the external borrowings to reduce the interest expenses. Conversely, a decrease in RMB deposit interest rate has also contributed to a similar interest income, resulting in lower net interest income for this period compared to the same period in 2023.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Profit and Loss Account *(Continued)*

(IV) There was a reduction in the 'Expected Credit Loss' allowance of US$49.3 million. By the end of 2023, the Group had already booked an 'Expected Credit Loss' allowance of US$225.3 million, primarily due to the overdue accounts receivable of HMD Global Oy ("HMD") amounting to US$215.3 million and we have fully provided for all accounts receivable of HMD. Considering the relatively low risk from other customers, the Group only booked a modest "Expected Credit Loss" allowance of US$1.4 million in the first half of 2024. The Group will continue to monitor the cash position of certain customers and collectively assess credit risk to ensure adequate expected credit loss allowances are recorded in the books, reflecting actual and potential collection risks. It is currently expected that there might be no need to provide for a large additional "Expected Credit Loss" allowance this year.

(V) There were also a year-on-year increase in the share of profit from the Group's associates and increase in the share of loss from the Group's joint venture, which are accounted for using the equity method in the Group's consolidated financial statements. In the current period, the Group recorded a share of profit of US$6.8 million from associates and a share of loss of US$2.9 million from a joint venture, compared to losses of US$3.2 million and US$2.1 million, respectively, for the same period in 2023. One of the associates improved its profitability mainly due to the recovery of one major Chinese customer and the joint venture incurred losses primarily due to challenging conditions in hardware sales and intense competition in mainland China's EV market, which has adversely affected both sales volume and pricing. These factors have significantly intensified margin erosion pressures.

(VI) Income tax expense during the current period was US$2.3 million, compared to US$20.2 million for the same period in 2023. In the first half of 2023, the Group recognised US$16.5 million in income tax on the gain from the disposal of land and properties in Hangzhou.

Despite gradual recovery in most major world economies, the Group continues to face numerous challenges and anticipates a prolonged turnaround period. Persistent weak demand and market saturation, coupled with a tough, dynamic, and volatile macroeconomic and geopolitical landscape, present ongoing uncertainties that may impact our performance. Past and current operating results and earnings may not accurately reflect future outcomes, given the variability in quarterly performance and the complexities of long-term forecasting. In response to these challenges, the Group remains vigilant and prepared to react decisively. This includes shifting the emphasis towards high-margin industries and clients across all subsidiaries, building long-term partnerships with international players, terminating unprofitable operations, aggressively reducing operating expenses, and cutting headcount as necessary.

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, banking facilities and liquidity positions) and working capital remain sufficient to finance its continuing operations and capital commitments; (b) the Group would have sufficient funds to satisfy its working capital and capital expenditure requirements for the forthcoming 18-month period; and (c) no significant events nor circumstances might adversely affect the Group's ability to fulfill its financial obligations or meet its debt covenants in a material respect.

During the current period, ROE (Return on Equity), which measures a company's profitability by indicating how effectively it utilises equity investors' resources and accumulated profits to generate income, was -2.1%, compared to -3.2% for the same period last year. The improvement in ROE was primarily due to decreased losses. Basic loss per share for the current period was US0.4 cent.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Dividends

The Company has adopted the following dividend policy to enhance transparency and assist shareholders and potential investors in making informed decisions. The policy does not prescribe a predetermined dividend distribution ratio. The form, frequency, and amount of dividends declared each year, as well as the payout ratio, will depend on various factors including the Group's business outlook and strategy, prevailing economic and market conditions, financial performance, cash flow from operations, projected working capital needs, capital structure, future expansion plans, capital expenditures, liquidity position, and other relevant considerations as determined by the Board from time to time. The Group's performance has been volatile in recent years due to economic slowdown, sluggish demand for handsets, geopolitical tensions, inflation, interest rate hikes, and a strong USD, creating uncertainties for the upcoming periods. The Group requires time to recover (please refer to the "Outlook and Industry Dynamics" below) and to maintain a robust capital structure, repay external borrowings, and generate a healthy return on available cash. Therefore, the Company will continue to closely monitor the situation and adjust or enhance its dividend policy as deemed necessary.

Diversification

Due to the dynamic nature of the market, evolving customer preferences, and product innovation, diversification has become imperative for our business strategy, the Group has focused on building up the internet and mobile ecosystems through initiatives in 5G, Internet of Vehicles (IoV), Artificial Intelligence (AI) and next generation communication, aiming to diversify the Group's business, reducing the reliance on the mobile phone market, and continuously optimising the Group's product mix.

In the field of automotive electronics, the rise of new energy vehicles is anticipated to drive further growth in the electric vehicle market, where the Group has already made significant strides. Apart from the Telematics Box (T-BOX) equipped with certified emergency call (eCall) systems, which has already started mass production and shipment, the Group has also diversified the product range to include Central Control Units (CCUs), Zonal Control Units (ZCUs), Electronic Smart Mirrors (E-Mirrors), Power Distribution Centers (PDCs), Smart Keyless Entry Systems, as well as various display screens and camera monitoring products.

In the field of AI-enabled robotics, as the world move towards Industry 4.0 and smart manufacturing, robots play a crucial role in the automation industry. In recent years, the Group has begun to develop robot hardware and software solutions for human-machine collaboration, real-time communication, autonomous planning, and inspection. The Group is actively seeking opportunities in the smart automation manufacturing sector, targeting widespread adoption in the automotive and electronics manufacturing industries. In addition to applications in industrial fields, the Group has also made important contributions to global sustainable development. The FIH Robotics intelligent recycling robot, developed in collaboration with environmental companies, was officially announced last year and made a significant impact at the WasteExpo 2024, one of the largest trade exhibitions for waste, recycling and organics in North America. Leveraging the Group's expertise in automation and AI accumulated over many years, FIH Robotics uses AI recognition and big data analysis to transform labor-intensive recycling work, supporting the development of a circular economy and accelerating the global transition to net-zero emissions.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Diversification *(Continued)*

In the field of AI, the Group has leveraged the extensive software development capabilities to apply AI to various products. In addition to the aforementioned intelligent recycling robot, the Group has also utilised generative AI technology to enable its joint venture, Mobile Drive Netherlands B.V. ("Mobile Drive"), to successfully achieve software-defined cars. Mobile Drive has actively developed Advanced Driver Assistance System (ADAS) solutions and has made significant progress. Mobile Drive began mass production and shipment of Taiwan's first fully self-developed ADAS in mid-2023. Besides entering the passenger vehicle market, in the first half of 2024, Mobile Drive has expanded further into the commercial vehicle sector by integrating AI and its proprietary "vision and radar multi-sensor fusion" technology, aiming to enhance transportation efficiency and ensure driving safety, providing higher-quality solutions to major automotive manufacturers.

As for next-generation communication technologies, with the emergence of satellite communication capabilities in smartphones, Low Earth Orbit (LEO) satellites primarily used for communication purposes have gained significant attention. The Group is actively positioning itself in the LEO satellite industry, offering related components, system integration solutions. The future LEO satellite market is expected to expand gradually, aiming to become one of the key growth drivers for the Group.

In addition to diversifying the business, the Group is also diversifying the operational bases to mitigate supply chain risks. Over the past three decades, Western countries have heavily invested in mainland China due to its low costs and rapidly expanding consumer market. However, this has resulted in an over-reliance on mainland China. Geopolitical tensions, rising costs, and the pandemic exposing supply chain vulnerabilities have accelerated the implementation of the "China Plus One" strategy, which involves diversifying operations to countries within India and the Association of Southeast Asian Nations (ASEAN). These countries are improving the business environment, implementing tax reductions, providing fiscal incentives for economic zones/industrial parks, and increasing infrastructure spending to stimulate new investments. Currently, India and Vietnam are focal points for the Group's expansion, as both are crucial economic regions for establishing new supply chain connections and can complement each other within the Indo-Pacific supply chain network.

In India, BFIH, a part of the Group, has been a major EMS provider since 2015, specialising in mobile phone manufacturing, aiming to dominate India's EMS and ODM markets by offering comprehensive "one-stop" ODM services, covering design, development, manufacturing, logistics, and after-sales support. This strategy is designed to cut costs, improve supply chain management, and expedite time-to-market. Since 2021, BFIH has diversified into telecommunications, mechanical components, electric vehicles, televisions, and hearables, reducing risk exposure from single segment of mobile phones and create further opportunities for revenue diversification.

Regarding Vietnam, its electronics manufacturing industry is currently experiencing a significant migration trend. This trend has provided abundant opportunities for the Group's subsidiary, Fushan, allowing it to diversify its operations. In 2022, Fushan initiated its own sales operations to capture local and international business opportunities, and has succeeded in receiving great and promising responses. In 2023 and the first half of 2024, the Group has continuously increased the investment in Fushan to further meet diverse customer demands and enhance operational efficiency. Overall, the Group aims to mitigate risks associated with single-product reliance and geopolitical factors, actively expanding the product portfolio and operational sites to enhance competitiveness at a higher level.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

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

The Group determines operating segments based on management-reviewed reports for resource allocation and performance assessment. The global smartphone market exhibits diverse regional trends, each with unique dynamics. The Group operates three geographical segments based on customer location, which typically reflect market, customer, asset, or operational locations, revealing regional risk exposure and opportunities. Segment profit (loss) represents the gross profit earned (loss incurred) by each segment, service income, and certain gains and losses (included in other income, gains and losses), after deducting all selling expenses and impairment loss under the expected credit loss model, net of reversal. Currently, the smartphone market operates in a globalised environment, vulnerable to economic and political fluctuations. With handset demand constrained, competitive pressures are intensifying amid market slowdowns. OEMs and ODMs are competing for their market share while tightening inventory control. The smartphone market is crowded with regional players introducing low-cost products to gain a competitive edge. Among the three geographical segments, the performance of the Asia segment is the weakest due to the change in outsourcing strategies of our customers, weak market demand, and intense cost competition from local peers in mainland China and India. Although mainland China remains a major smartphone market, it is experiencing a slowdown in growth, and global smartphone sales are expected to grow slower due to economic challenges in mainland China. Saturation in the high-end segment and economic uncertainties are leading to a shift towards affordable phone upgrades and longer replacement cycles.

Asia Segment

The Group's Asia segment comprises its main regional markets, mainland China, Taiwan and India, which faced significant challenges during the period. Revenue for the Asia segment in the current period was US$1,067 million, marking a significant decline of US$808 million or 43.1% compared to US$1,875 million for the same period last year. Profit for the current period was US$9.4 million, a decrease of US$27.7 million from the previous year, primarily due to reduced shipments resulting from weak demand and a shift in outsourcing strategy by a major customer who found new manufacturing partners in mainland China and India. In India, the margin erosion pressure is significant due to strong emerging competition in the form of domestic EMS which have the advantage of relaxed Production Linked Incentive (PLI) criteria which BFIH does not since it is a multinational company. Additionally, in 2023, the Group's Indian operations produced a significant volume of routers for a major customer. However, in 2024, major telecom operators in India shifted focus to 5G monetisation, reducing capital expenditure after completing nationwide rollouts, which led to a dramatic decline in our router shipments and has further strained the revenue streams. In mainland China, subdued demand reflects consumer reluctance to upgrade smartphones frequently, intensifying competition and prompting our customers to adopt a more cautious approach focused on risk mitigation. Competitors in mainland China are highly cost competitive, resulting in some lost orders to them. For Sharp's phone business, inflation in Japan and yen devaluation have increased domestic prices, reducing consumer willingness to upgrade devices. Sharp is actively seeking production partners outside mainland China to mitigate higher labor costs. For Hon Hai's consumer electronics manufacturing, the macroeconomic environment remains challenging with weak consumer spending on electronic devices. High inventory levels and carrying costs have compelled the customer for e-books and smart speakers to tighten budget controls and procurement. Market stagnation has intensified competition, with Hon Hai's competitors offering more aggressive pricing and investments.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

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

Asia Segment *(Continued)*

The decline in demand of the Asia segment has directly impacted capacity utilisation and assets, necessitating ongoing downsizing, restructuring, and asset sales. During this period, the Group implemented widespread workforce reductions in different countries to reduce indirect labor. These challenging conditions have persisted into 2024, impacting the performance and recovery of the Asia segments.

Europe Segment

The recorded revenue of the Europe segment in the current period was US$286 million, representing a decrease of US$60 million or 17.3% compared to US$346 million for the same period last year. The segment recorded a profit of US$4.1 million, compared to a loss of US$42.3 million for the same period last year. The decrease in revenue was mainly due to the cessation of business with HMD (a Finnish company) and a decline in sales of phones to a major customer. In 2023, the Group booked an Expected Credit Loss allowance of US$137.8 million (US$54.6 million for the first half of 2023 and US$83.2 million for the second half of 2023) for accounts receivable from HMD. However, due to the dramatic decrease in sales of feature phones to HMD and repayment from HMD during the current period, there is a reversal of Expected Credit Loss allowance for HMD, which led to the turnaround of the result performance of the Europe Segment during the current period.

Since June 2023, in addition to requesting HMD to prepay before shipment, the Group has refrained from initiating new projects with HMD, except for one project expected to conclude in 2024. During the current period, the HMD segment is nearing completion of a 10-product portfolio. The final product, a small quantity, is anticipated to have demand extending into the second quarter of 2025. The dramatic decline in feature phone shipments to HMD is a major factor contributing to the year-on-year decline in sales of the Europe segment. As phone shipments to HMD in the second half of the year will be minimal, HMD will no longer be a major customer of the Group.

On the other hand, another major customer of the Group, a U.S.-based Internet company with a strong presence in the U.S., expanded its sales into Europe and showed strong and encouraging growth. Demand weakened in the current period. However, the long-term outlook is good.

America Segment

For the America segment, core businesses include selling phones manufactured in mainland China and Vietnam to a U.S.-based Internet customer, as well as providing services such as reverse logistics, repair, refurbishment of smartphones for OEMs and carriers, and after-market electronic product services through the Group's entities in the U.S. and Mexico. Due to improved shipments of phones to a major customer, the recorded revenue of the Group's America segment in the current period was US$542 million, marking an increase of US$86 million or 18.9% compared to US$456 million for the same period last year. In 2024, sales of phones of this major customer showed significant growth in the U.S. market despite a general decline in overall phone sales. The North American handset market is mature, with longer replacement cycles. Due to the growth in sales, the result for the current period was a profit of US$11.5 million, representing an increase of US$0.7 million compared with the result for the same period last year. However, the performance of this segment was affected by the underperformance of the operation in Mexico.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

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

America Segment *(Continued)*

The abovementioned major customers which demonstrated growth in sales is a prominent U.S.-based Internet company, with whom the Group has a longstanding partnership. The Group delivers comprehensive engineering and production services to provide premium smartphones that meet this customer's demand for reliability and performance. To mitigate regional concentration risks, we leverage competitive geographical advantages and operational excellence for this customer.

Additionally, the Group provides robust after-market services, including reverse logistics, repair/refurbishment services, and manufacturing services in the North American region. These offerings deliver integrated solutions, offering American customers end-to-end value-added manufacturing services and after-market services that cover the entire product life cycle. Over the past several years, the Group has invested in and upgraded various manufacturing capabilities at the Mexico site to prepare for potential demand growth over the next five years. However, due to the market downturn, the business volume of major accounts dropped, and low-margin accounts became burdensome. High inflation also increased operational costs. The underperformance of this part of the business offset the positive contributions from the U.S.-based Internet customer. To reduce the losses of the after-market service business, we are reducing headcount to align with the needed size and capacity, improving operational efficiency and productivity. Additionally, we will differentiate our North American operations by highlighting the advantages and benefits to customers seeking regional solutions to compete with Asian supply chain solutions.

Due to abovementioned favorable factors, the performance of the America segment had a positive 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

The Group provides a one-stop solution and manufactures both casing and system assembly together and sells complete products to some customers. However, for a better understanding of this report, the Group has divided the competitors into casing business and EMS business. In recent years, mainland China domestic labor costs and turnover rate have risen sharply, yet the efficiency of factory operations has not increased correspondingly, and the cost advantage of mainland China is no longer comparable with other countries in Southeast Asia like Vietnam and India. Besides, the smartphone market has already become very competitive and saturated. As a matter of fact, the Group's peers have already shifted their business to non-mobile phone products to improve profit margins, and reduce operational and dependency risks.

Notably, affected by the adverse operating environment in the casing business and weak consumer electronics market, how quickly our peers adopt business changes has become a major criterion of success. One of the Group's peers has swiftly relocated its resource from smartphone component to new energy vehicle electronics components in 2023, and such change has kept this peer a stable revenue performance with a better profit margin. At the time of 2024 smartphone market recovery, this peer enjoyed the revenue and profitability growth from its phone business and new energy business.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Peers *(Continued)*

As for the system assembly business of the OEM business model, it has a lower barrier to entry and lower profit margins compared to the casing business, and the capital required for operations is relatively high. In the highly competitive Chinese market, some peers are actively establishing production capacities outside of mainland China and are putting more effort into other high-margin and high-growth businesses, even leveraging their resources to expand into new industries. Most of the peers in the EMS business recorded better revenue growth in the first quarter of 2024. This was not only due to the recovery of the smartphone market but also benefited from their expansion into the high growth, high margin business, including automotive electronics, batteries, related components, intelligent cockpit systems, intelligent driving systems, photovoltaic inverters, new energy storage, AR/VR devices and servers. In summary, due to various external influences such as political tensions and sluggish demand, many of our competitors have adjusted their product and customer mix, as well as their overall business strategies. They have gradually reduced their dependence on the mobile phone business and developed alternative sales engines to adapt the changing market conditions.

The Group has been closely monitoring market movements and continually optimising capacity utilisation in mainland China, India, and Vietnam, with enhancing the Group's vertical integration capabilities and aggressively developing new products and services for diverse customer segments including automotive electronics, robotics, artificial intelligence, and next-generation communication technologies. In the casing business, the Group aim to diversify customers, products, and manufacturing sites, and is enhancing technology, processes, and materials, focusing on mechanical engineering strengths crucial for success, aiming to improve quality, efficiency, and customer responsiveness, while cutting mold cycle times and costs. As for EMS business, 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 the existing capacities in India, Vietnam and other countries to capture first-mover advantages.

Investments

On the basis that the value of each of the investments mentioned below as of 30 June 2024 is less than 5% of the Group's total assets as at 30 June 2024, 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 Corporation (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.

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). 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.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

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

Based on the latest financial performance and position, the management has assessed the fair value of the investment in HMD as at 30 June 2024.

The investment team will continue to monitor the progress its fund raising and business performance and liquidity.

Other Investments

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.

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.

The Group invested US$1 million in CloudMinds Inc. ("CloudMinds"), a cloud-based AI robots operator in mainland China, founded in 2015. CloudMinds filed an IPO application with the U.S. SEC (Securities and Exchange Commission) in December 2019. However, due to the impact of COVID-19, global economic downfall, and U.S sanctions, CloudMinds adjusted its IPO plan, and has completed recapitalisation and several financing rounds to enhance its technology development and financial status. In the reporting period, CloudMinds' pre-IPO round is still undergoing and the company is actively monitoring the capital market condition for the best timing to file public listing. Despite the overall economic downturn in mainland China negatively impacting the robotics industry in the first half of the year, CloudMinds continued to increase its sales efforts, implemented stricter budget management systems, and rigorously controlled R&D and G&A expenses, significantly improving its financials. Based on the recent performance, the management assessed the fair value of the investment in CloudMinds as at 30 June 2024.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Investments *(Continued)*

Augentix Inc ("Augentix"), 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 Things), professional IP camera, and consumer surveillance by leading brands around the globe. Additionally, Augentix is extending its product offering to SoC solutions for automotive cameras, actively expanding the product mix. 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 the end of 2023, Augentix successfully completed a pre-IPO round of financing to reenforce its cash position and financial strength. With the support from pre-IPO round, Augentix is expecting a notable growth this year and is currently actively working on the IPO process, aiming at listing in Taiwan in 2025. As at 30 June 2024, the Group's stake in Augentix is 1.08% on the fully diluted basis.

Gengde electronics Co., Ltd. ("Gengde"), founded in 2009 in mainland China, specialises in design and processing of components and molds for smartphones, laptops, and wearable devices. With exceptional design capabilities and advanced processing techniques, Gengde has become a key supplier for leading smartphone brands in mainland China, leveraging extensive production resources across the country. In 2015, the Group invested approximately US$4 million in Gengde through equipment valuation, sharing resources to expand the consumer electronic product business in mainland China. In 2023, with increased orders from major customers, Gengde experienced substantial revenue growth and successfully turned a profit. In the first half of 2024, Gengde continued to expand its business, experiencing significant growth in revenue and profit, and successfully secured an investment from its strategic partner.

Kai Hong Energy Co. ("Kai Hong") is a green energy investment platform established in Taiwan in 2024 by CDIB Capital Group and Hon Hai Precision Ind. Co., Ltd. It is the pioneer of cross-industry collaboration between the financial and technology sectors in Taiwan. The primary investment targets are in the fields of solar energy, wind energy, and energy storage, aiming to assist enterprises in achieving net-zero carbon emission goals. Kai Hong has attracted the favor of many investors, including companies from the panel, memory, automotive, and financial industries. The Group committed to investing US$3.85 million in Kai Hong and completed the first capital injection in the first half of 2024. By stepping into the sustainable development of the green energy industry, the Group hopes to secure a stable supply of green electricity to achieve the RE100 (100% renewable electricity) goal in the coming years. For further details, please refer to the announcement of the Company dated 26 April 2024.

The Group also made certain investments in other companies designated as fair value through other comprehensive income ("FVTOCI") mainly in mainland China, India and U.S. in the past few years. In mainland 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.

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Investments *(Continued)*

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 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. At this stage, the Group does not currently have any plan for a significant investment contemplated by the Listing Rules.

As at 30 June 2024, the fair value of the Group's equity investments designated as FVTOCI was US$63 million, which represented 1.3% of the Group's total assets.

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 currency conversion restrictions and repatriation controls on foreign earnings 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 mainland China, 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 mainland China, 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:

DISCUSSION AND ANALYSIS *(Continued)*

Compliance with Relevant Laws and Regulations *(Continued)*

Mainland China

In relation to the mainland China value-added tax (VAT), please refer to the background and previous developments as described in page 116 of the Company's 2023 interim report as issued and published on 14 September 2023. On 27 December 2022, the Value-Added Tax Law (Draft) was submitted to the Standing Committee of the 13th National People's Congress for its first review, and on 28 August 2023 it was submitted to the Standing Committee of the 14th National People's Congress for its second review at the Fifth meeting of the Standing Committee of the National People's Congress. According to the arrangements of the "National People's Congress Standing Committee 2024 Legislative Work Plan", the Value-Added Tax Law (Draft) will be reviewed for the third time in December 2024. At present, 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 mainland China subsidiaries will continue to monitor the legislation process of the VAT regime and assess the potential impacts of the Draft VAT Law on their operations in anticipation of its enactment.

The revised Company Law of the mainland China (hereinafter referred to as the "New Company Law") and the "Regulations of the State Council on the Implementation of the Registered Capital Registration Management System of the 'Company Law of the People's Republic of China'" (hereinafter referred to as the "Regulations") have been implemented on 1 July 2024. The New Company Law and the Regulations will bring a universal impact on all mainland China companies (including foreign-invested entities), covering substantial changes in areas such as corporate governance, capital contribution, management responsibilities, corporate information disclosure, corporate litigation and registrations. In particular, the governance structures and constitutional documents of the Group's mainland China subsidiaries being foreign-invested entities (Group FIEs), together with their respective business, legal or compliance models and practices, shall be adjusted to accommodate the corresponding requirements under the New Company Law, which may imply additional costs of legal/regulatory compliance. Pursuant to the New Company Law and the Regulations, the Group will take into account the actual circumstances, and ensure that the Company's operations would comply with the New Company Law and the Regulations through measures such as revising the Company's articles of association, optimising the governance structure, and strengthening the responsibilities of directors, supervisors, and senior executives etc. At the same time, it is also necessary to pay close attention to subsequent legislative trends and detailed regulations of the regulatory authorities, and adjust implementation strategies in a timely manner to ensure a smooth transition.

DISCUSSION AND ANALYSIS *(Continued)*

Compliance with Relevant Laws and Regulations *(Continued)*

Mainland China *(Continued)*

In respect of the mainland China Foreign Investment Law which took effect on 1 January 2020 (FIL), please refer to the background and previous developments as described in page 116 of the Company's 2023 interim report as issued and published on 14 September 2023. In particular, the governance structures and constitutional documents of the Group FIEs, together with their respective business, legal or compliance models and practices, shall be adjusted to accommodate the corresponding requirements under the mainland China Company Law, which may imply additional costs of legal/regulatory compliance. According to the Company Law, group foreign-invested enterprises in the form of companies with limited liability registered and established before 30 June 2024, are granted a 8-year transition period (i.e. 1 July 2024 to 30 June 2032) for compliance with the mainland China Company Law in effect at that time; group foreign-invested enterprises in the form of companies limited by shares registered and established before 30 June 2024, are granted a 3-year transition period (i.e. 1 July 2024 to 30 June 2027) for compliance with the mainland China Company Law in effect (currently the New Company Law. With effect from 1 July 2024, if a newly established group foreign-invested enterprises is established in the form of a company with limited liability, the capital contribution shall be paid in full within five years from the date of establishment of the company; if it is established in the form of a company limited by shares, the founders should pay the full amount of the shares subscribed by them before the establishment of the company, in order to comply with the mainland China Company Law currently in effect (currently the New Company Law). As mentioned above, the Group FIEs have been assessing the impacts of the FIL and (as mentioned above) the New Company Law and (as appropriate) will 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

On 29 November 2023, the Vietnam National Assembly issued the Resolution No. 107/2023/QH15 on application of additional corporate income tax in accordance with the Global Base Erosion (GloBE) Rules on Global Minimum Tax (GloBE Rules), becoming effective from 1 January 2024. As appropriate, additional taxes will be imposed on the taxable income (if any) of the Group's Vietnamese subsidiaries and paid by the end of 2025. This may increase tax costs of the Group's Vietnamese subsidiaries. However, the Vietnamese government is also developing policies to amend the local corporate income tax law to support businesses (including those of the Vietnamese subsidiaries) which have been adversely affected by the imposition of the aforesaid additional corporate income tax pursuant to the GloBE Rules.

In relation to the policy of reduction of VAT from 10% to 8% which took effect from 1 July 2023, please refer to the background and previous development as described in pages 116 and 117 of the Company's 2023 interim report as issued and published on 14 September 2023. According to the Vietnamese government's Decree No. 72/2024/ND-CP dated 30 June 2024, the said policy will continue to be applicable from 1 July 2024 till 31 December 2024. It follows that the Group's Vietnamese subsidiaries and their customers could continue to enjoy the cost-saving benefits derived from such VAT reduction for a longer period.

DISCUSSION AND ANALYSIS *(Continued)*

Compliance with Relevant Laws and Regulations *(Continued)*

Vietnam *(Continued)*

In addition, on 30 June 2024, the Vietnamese government issued Decree 74/2024/ND-CP ("Decree No. 74"), regulating the regional minimum wage (RMW) for employees working under labor contracts, effective 1 July 2024. Decree No. 74 establishes different minimum hourly and monthly wages for the four designated areas in Vietnam. The Group's Vietnamese subsidiary, Fushan has implemented Decree No. 74. Consequently, as Fushan is located in Area II, it has adopted the RMW of 4,410,000 VND per month and 21,200 VND per hour, resulting in an approximate 6% increase in labor costs. The rise in labor costs constitutes a minimal proportion of the total annual employment expenses.

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, as well as the relevant documentation requirements stipulated by the local transfer pricing rules and Country-by-Country Reporting (CbCR) obligations in the jurisdictions where the Group operates. The Group falls within the CbCR scope of the Company's ultimate controlling shareholder, Hon Hai, for such purposes.

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

DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources

The Group centrally manages the funding and treasury activities in accordance with corporate policies. The main objectives are to ensure appropriate levels of liquidity, to have adequate funds available for working capital or other investments at reasonable costs required to grow the business, to maintain a healthy capital structure, and to balance exposures to market risks, uncertainties, and volatilities.

As at 30 June 2024, the Group had a cash balance of US$1,706 million (31 December 2023: US$1,845 million). Free cash flow, representing the net cash used in operating activities of US$197 million (31 December 2023: net cash from operating activities of US$103 million) plus capital expenditure of US$58 million (31 December 2023: minus US$93 million), was US$255 million outflows (31 December 2023: US$10 million inflows). The Group possesses ample cash to finance its operations and investments. The Group's gearing ratio, calculated as a percentage of interest-bearing external borrowings of US$866 million (31 December 2023: US$704 million) over total assets of US$4,674 million (31 December 2023: US$4,319 million), stood at 18.5% (31 December 2023: 16.3%). All external borrowings were denominated in USD and INR (31 December 2023: USD). The Group borrowed as per actual demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. To reduce our bank loan amount (and thereby lower interest expenses), we will increase engagement in global cash management. This involves repatriating funds from subsidiaries that have no new investment plans back to the parent company. Before repatriating profits from Chinese or overseas subsidiaries, we will comply with the respective local laws and pay the required taxes. The outstanding interest-bearing external borrowings were all at a fixed rate ranging from 5.88% to 8.07% (31 December 2023: fixed rate ranging from 5.96% to 6.25%) per annum, with an original maturity of one to four months (31 December 2023: one to seven months). As at 30 June 2024, the Group's cash and cash equivalents were predominantly held in USD, RMB and INR. Net cash used in operating activities during the current period totalled US$197 million. Net cash used in investing activities during the current period was US$50 million, of which, mainly, US$58 million represented the expenditures on property, plant and equipment related to the facilities at the Group's major sites in mainland China, Vietnam and India, US$8 million represented net cash outflow from bank deposits, US$1 million represented purchase of equity instruments at fair value through other comprehensive income, US$7 million represented proceeds from disposal of property, plant and equipment, and US$10 million represented dividend income from an associate. Net cash from financing activities during the current period was US$127 million, primarily due to a net increase in bank borrowings of US$162 million, payments for repurchase of ordinary shares of US$1 million, interest paid on bank borrowings of US$32 million, and repayment of lease liabilities of US$2 million.

Exposures to Currency Risks and Related Hedges

As inflation has reached a 40-year high in U.S., the FED has consistently raised interest rates to counter the negative impacts of inflation. Consequently, the USD has strengthened against all other major currencies around the world. To mitigate foreign exchange risks, the Group actively employs both natural hedging technique and financial methods to manage its foreign currency exposures. This includes entering into short-term forward foreign exchange contracts (usually with tenors of less than four months) from time to time to hedge against the currency risks arising from its operations and investments denominated in foreign currencies.

Capital Commitments

As at 30 June 2024, the capital commitments of the Group were US$31 million (31 December 2023: US$32 million). Typically, the capital commitments were funded by cash generated from operations.

DISCUSSION AND ANALYSIS *(Continued)*

Pledge/Charge of Assets

There was no pledge nor charge on the Group's assets as at 30 June 2024 and 31 December 2023.

Contingent Liability

There was no material contingent liability for the Group as at 30 June 2024 and 31 December 2023.

Donations

During the six months ended 30 June 2024, the Group made donations for charitable or other purposes to a total amount of approximately US$4,000.

Outlook and Industry Dynamics

Industry Dynamics

Macroeconomic Headwinds

The global economic outlook for the remainder of 2024 presents a picture of slow recovery amid persistent challenges. According to the World Bank's Global Economic Prospects report published in June 2024, global growth is projected to hold steady at 2.6% in 2024. This growth rate is well below the 3.1% average in the decade before COVID-19. In advanced economies, growth is set to remain at 1.5% in 2024, and developing economies are projected to grow 4% on average over 2024-25, slightly slower than in 2023. However, this recovery remains fragile as several factors which have adversely affected the global economy in the first half of 2024 are expected to persist through the latter half of the year. Inflation, while moderating, continues to be a concern, with central banks likely to maintain cautious monetary policies. The FED has indicated a potential for rate cuts later in the year, but the timing and extent remain uncertain. Additionally, mainland China's economic performance may not meet anticipation as it still faces challenges such as ongoing issues in the property sector, subdued consumer spending, and external headwinds from global economic uncertainties. Furthermore, geopolitical tensions, including ongoing conflicts and trade disputes, continue to pose risks to global stability and trade flows.

ODM/OEM/EMS Industry Review and Challenges

Overall, the Original Design Manufacturing (ODM), Original Equipment Manufacturing (OEM), and Electronics Manufacturing Services (EMS) industry, a crucial component of the global technology supply chain, has continued to face a complex and challenging landscape in recent years. Characterised by low entry barriers, razor-thin profit margins, and intense competition, the sector is under constant pressure to innovate while maintaining cost-effectiveness. This pressure is particularly acute due to mainland China's formidable low-cost manufacturing capabilities, forcing OEMs worldwide to reduce profit margins to secure contracts with major brands. Consequently, the industry has evolved into a scenario where scale becomes a critical factor for survival, especially during market downturns. Concurrently, the industry has also been grappling with other challenges: rising domestic production costs, a shortage of skilled labor, and increasing consumer demands for customised products and rapid technological upgrades. These factors, coupled with an insufficient supply of grassroots employees and rising salary levels, have created bottlenecks in industry development.

DISCUSSION AND ANALYSIS *(Continued)*

Outlook and Industry Dynamics *(Continued)*

Industry Dynamics *(Continued)*

ODM/OEM/EMS Industry Review and Challenges *(Continued)*

In response, the Group has implemented a multi-faceted strategy to maintain its competitive edge. This approach includes accelerating automation initiatives, developing advanced industrial robotics, and constructing smart factories to enhance production efficiency. Additionally, the Group has intensified its efforts in monitoring economic conditions and consumption trends, while implementing stringent cost control measures. Furthermore, the industry faces ongoing challenges from geopolitical tensions disrupting supply chains, volatile raw material costs, and the necessity for substantial capital investments to keep pace with rapid technological evolution.

Smartphone Market Outlook

The global smartphone industry in 2024 is showing signs of modest recovery after several challenging years. According to the International Data Corporation (IDC) report published in May 2024, global smartphone shipments are projected to grow 4.0% year over year in 2024 to 1.21 billion units, primarily driven by gradual resurgence in consumer demand and the continuing transition to 5G technology across various markets. Moreover, the increasing demand for AI-enabled devices are also estimated to catalyse the growth. The IDC report published in February 2024 also highlights this trend, forecasting that 170 million next-generation AI smartphones will be shipped in 2024. This figure represents nearly 15% of the total smartphone market, surpassing even the shipments of AI-enabled personal computers. However, the smartphone market continues to face several significant challenges. Extended replacement cycles, particularly in mature markets, remain a concern. Consumers in these regions are holding onto their devices for longer periods, partly due to the high quality and durability of modern smartphones and partly due to economic considerations. This trend is putting pressure on manufacturers to innovate and provide compelling reasons for upgrades. In addition, economic uncertainties in various regions also pose a challenge to sustained growth. Factors such as inflation, currency fluctuations, and geopolitical tensions can impact consumer spending patterns and disrupt supply chains. These uncertainties require smartphone manufacturers to remain agile and adapt their strategies to navigate potential market volatilities.

With the popularity of innovations and technologies, the smartphone industry has become commoditised and highly homogenised with standardised specifications leading to increased market competition. The fierce competition, particularly from ODM/OEM/EMS peers, has created additional pressure on the Group's business. This competitive landscape may slow new customer acquisition, especially among rapidly growing smartphone vendors. Furthermore, the Group faces competition from the manufacturing operations of its current and potential customers, who constantly evaluate the advantages of in-house manufacturing versus outsourcing, and OEM versus ODM models. Moreover, the smartphone industry's dynamic and competitive nature has led to industry consolidation. This consolidation has resulted in larger, more geographically diverse competitors with significant combined resources, intensifying competition against the Group and potentially pressuring the supply chain. These developments have impacted the Group's sales, sales mix, and customer mix, potentially leading to margin pressure, reduced market acceptance of its services, profit compression, and loss of market share.

To address these challenges and mitigate the impact of price erosion on gross margins, the Group has implemented several strategies. It has maintained a lean and agile structure through restructuring and downsizing actions. Additionally, the Group has shortened the cycle time of new product development to align with customers' product launch schedules and reduce time to market. Moreover, it has focused on the "2+2" strategy and continued to develop higher-margin businesses. The Group has adjusted its future business plan to prioritise new customer development and cost optimisation. It will continually monitor market competition conditions to respond effectively to industry changes

DISCUSSION AND ANALYSIS *(Continued)*

Outlook and Industry Dynamics *(Continued)*

Risk and Opportunities in 2024

Macroeconomic Risk Factors

(I) The Group is dependent on the success of its customers and the general economy. Prolonged high interest rates have dampened consumer spending, particularly impacting demand for mobile phones.

(II) The geopolitical landscape remained fraught with tensions that continued to impact global trade. Ongoing trade disputes between major economies, escalating regional and global conflicts, have been reshaping international relations and business environments, adding a layer of uncertainty to the business environment.

(III) 2024 is an election year in the U.S.. Businesses should actively monitor the political landscape during an election year, engage in scenario planning, and remain agile to adapt to changes in the political and economic environment.

Industry-Specific Risk Factors

(I) As mobile phones have become commoditised and highly homogenised with standardised specifications, the low entry barriers have made the contract manufacturing industry crowded with numerous global and regional players. Mobile Phone ODM/OEM is now coupled with keen market competition, surplus capacity among peers, and the ability to bargain with the shrinking number of brand customers is challenged. All of these factors have kept pricing pressure high and led to unprecedented gross margin erosion to the Group.

(II) The sales recovery of the Group has been limited by already challenging smartphone market conditions, which have been worsened by sluggish demand due to the threat of inflation, prolonged high interest rate, extended phone replacement cycles, and a lack of significant smartphone upgrades.

Customer Related Risk Factors

(I) Some customers may insource previously outsourced business or future productions to optimise capacity and save costs. Increased frequency of customers diverting business to competitors, insourcing, or price erosion pressures lead to sales drop and further restructuring or downsizing. Maintaining bargaining power with these existing customers is challenging in a competitive market with surplus manufacturing capacity, weak and shrinking demand. Competitive pricing pressures from peers in mainland China and India reduced market revenue potential, keeping pricing pressure high.

(II) Customer concentration poses risks, with the top five customers accounting for 85.30% of revenue. One major customer found new manufacturing partners in mainland China and India, causing a dramatic drop in sales to this customer during the current period. We also lost some other major customers, causing our factories to become increasingly underutilised and severely idle and we have to consolidate the sites. It will take time to replace declining sales from end-of-life programs and customer disengagements with new business wins and to build up the volume of new businesses. The Group's historical focus on mobile phones necessitates adjustments in resources and the building of a strong business development team to enter new markets.

DISCUSSION AND ANALYSIS *(Continued)*

Outlook and Industry Dynamics *(Continued)*

Risk and Opportunities in 2024 *(Continued)*

Customer Related Risk Factors *(Continued)*

(III) The Group is developing new customers and products, diversifying beyond mobile phones into areas like digital healthcare and advanced networking equipment. Building relationships with new customers presents risks, as their untested products may not gain market acceptance, affecting demand forecasting and inventory planning. The financial condition of start-up customers can also pose credit risks. The Group monitors credit positions, late payments, and potential default risks.

(IV) Due to its own capacity planning, Hon Hai may adjust its outsourcing strategy, insource, and reduce or even terminate its business with the Group.

Other Risk Factors

(I) Regarding cyber risk, the Group has an information/cyber security policy to protect financial data and business information. Employees must follow an IT department handbook to manage cyber security risks and ensure network control. The IT department also has procedures for immediate response to cyber-attacks. All computer servers are in a Local Network Area (Intranet) with a redundant firewall design. A Global Security Operation Centre (GSOC) monitors networks for attacks, and the IT department reports monthly on cyber incidents. A disaster recovery plan is in place to ensure quick and effective responses to minimise harm and restore operations, ensuring continuous business operations.

(II) Continuing adverse financial impact from the Group's under-utilised and unutilised assets, where the Group has been devising plans and implementing measures to address this as part of the Group's continuing rightsizing/restructuring activities, including possible disposal of any such assets, with a view to minimising their continuing adverse financial impact.

(III) Changes in market/legal/regulatory/compliance/government/tax policy and the need to pay dividend withholding tax when remitting dividends to parent companies Pillar II is part of the OECD's Base Erosion and Profit Shifting (BEPS) 2.0 project, which aims to ensure that multinational enterprises (MNEs) pay a minimum level of tax regardless of where they operate. The Pillar II effective tax rate and top-up tax are calculated on a jurisdictional basis for the entire group (i.e., the Hon Hai Technology Group). However, if there is any potential top-up tax for the entire Hon Hai Technology Group, it is possible that the Hon Hai Technology Group may further allocate or recharge the relevant tax to the respective entities that contribute to the top-up tax.

Opportunities

The Group has actively expanded into automotive electronics, robotics, artificial intelligence, and next-generation communication technologies in recent years. In the field of automotive electronics, other than the success in the T-BOX, the Group has also expanded the product offerings from control units to in-vehicle solutions. In addition, the Group's AI-enabled robotics solution has received highly acknowledgment from oversea customers and has initiated several implementation project discussions. For the next-generation communication field, the Group has been working closely with a reputable GEO-LEO satellite operator to offer a highly technology advanced phased array antenna.

Moreover, the Group is continuously expanding its overseas production capacity to meet customers' needs and actively develop new customers across different industries, thereby diversifying both our customer and product base.

DISCUSSION AND ANALYSIS *(Continued)*

Outlook and Industry Dynamics *(Continued)*

2H 2024 Outlook

Over the last several years, the Group has been proactively taking appropriate and reasonable steps to seek to improve the Group's performance, notwithstanding the various challenges over that period. The various factors described in the "Discussion and Analysis" section above, are expected to continuously impact the Group's performance in 2H 2024 and ultimately the full year ending 31 December 2024 (FY 2024). Based on currently available information, the Company believes that there is a realistic likelihood of a year-on-year decline in FY 2024 sales due to the proactive optimisation of our customer portfolio as we prudently engage with customers aligned with our strategic objectives. However, through expense-cutting measures, the Group is improving efficiency and maintaining financial resilience. There is likely to be an improvement in our financial results in the second half compared to the first half, and year-over-year. From a business perspective, the Group has actively expanded into automotive electronics, robotics, artificial intelligence, and next-generation communication technologies, continuously expanding its overseas production capacity to meet customers' needs, and actively develop new customers across different industries, thereby diversifying both our customer and product base. All these efforts are expected to lead to positive outcomes in the following years, including an overall improvement in operational and financial performance.

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 2024) certain unaudited consolidated financial information of the Group for the nine months ending 30 September 2024, 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: Looking forward, the macro-environment in 2H 2024 will likely remain uncertain and challenging, and consumer demand will likely to 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

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. CHANG Chuan-Wang ("Mr. Chang") and Mr. CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) ("Mr. Chiu"), both were appointed as a non-executive director and an independent non-executive director of the Company on 29 June 2023, respectively, being eligible, offered themselves for re-election at the Company's annual general meeting held on 22 May 2024. Pursuant to the approvals of the Board on 7 March 2024 and the Company's shareholders on 22 May 2024, Mr. Chang and Mr. Chiu were re-elected a non-executive director and an independent non-executive director of the Company, respectively, for a term of not more than 3 years, commencing from 22 May 2024 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) their next re-election is considered in accordance with the Articles. Each of Mr. Chang and Mr. Chiu is entitled to a fee of HK$26,000 per month (less any necessary statutory deductions) for his services as a non-executive director or an independent non-executive director, respectively.

Mr. Chang has been appointed as the chairman of the board, an executive director, chairman of the nomination committee and a member of remuneration committee of Maxnerva Technology Services Limited with effect from 26 March 2024 and has also been appointed as a non-executive director and a member of remuneration committee of FIT Hon Teng Limited (both of the above companies' ultimate controlling shareholder is Hon Hai and whose shares are listed on the main board of the Stock Exchange) with effect from 21 June 2024.

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. Pursuant to the approval of the Board on 7 March 2024 and the approval of the Company's shareholders on 22 May 2024, Mr. LAU Siu Ki ("Mr. Lau"), an independent non-executive directors of the Company, was re-elected in his capacity for a term of not more than 3 years, commencing from 22 May 2024 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-elections is considered in accordance with the Articles. Mr. Lau is entitled to a fee of HK$26,000 per month (less any necessary statutory deductions) for his services as an independent non-executive director as well as an allowance of HK$7,800 per month (less any necessary statutory deductions) for his services as the chairman of the audit committee, remuneration committee and nomination committee of the Company. Mr. Lau has resigned as an independent non-executive director of IVD Medical Holding Limited (whose shares are listed on the main board of the Stock Exchange) with effect from 28 March 2024.

Pursuant to the approval of the Board on 26 June 2024, (1) Mr. CHIH Yu Yang ("Mr. Chih"), an executive director of the Company, has been re-designated from Acting Chairman to Chairman of the Board and resigned as the chief executive officer of the Company, both with effect from 1 July 2024. Mr. Chih continues to act as the chairman of the corporate governance committee of the Company; and (2) Mr. LIN Chia-Yi (also known as Charles LIN) ("Mr. Lin"), an executive director of the Company, has been appointed as the chief executive officer of the Company with effect from 1 July 2024. For details, please refer to the Company's announcement dated 26 June 2024.

Mr. Lin has ceased to act as a director of 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd., for identification purposes only), an indirect wholly-owned subsidiary of the Company, since July 2024.

DIRECTORS *(Continued)*

Save as disclosed above, there was no other changes in directors' biographical details which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's 2023 annual report and announcement dated 26 June 2024 as published by the Company.

Pursuant to the approval of the Board on 7 March 2024 and the subsequent finalisation by the Board's delegate, the Company granted 2,627,947 shares to Mr. Chih and 1,778,031 shares to Mr. Lin respectively under the Existing Share Scheme (as defined below). Such share awards will be vested on 8 March 2025.

DISCLOSURE OF INTERESTS

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

As at 30 June 2024, 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 C3 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 (resigned as the chief executive officer of the Company with effect from 1 July 2024)	The Company	Beneficial owner	40,638,744 *(Note 1)*	0.5154%
	BFIH	Other	1 *(Note 2)*	0.00000004%
	CMCS *(Note 3)*	Beneficial owner	500	0.0007%
LIN Chia-Yi (appointed as the chief executive officer of the Company with effect from 1 July 2024)	The Company	Beneficial owner	4,318,036 *(Note 4)*	0.0548%
KUO Wen-Yi	The Company	Interest of spouse	700,000	0.0089%
	Hon Hai	Beneficial owner	1,848	0.00001%
	Hon Hai	Interest of spouse	13	0.0000001%
CHANG Chuan-Wang	Hon Hai	Beneficial owner	17,000	0.0001%

DISCLOSURE OF INTERESTS *(Continued)*

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

Notes:

1. On 6 November 2023 and 8 March 2024, Mr. Chih was granted a share award of 1,979,598 shares and 2,627,947 shares in the Company respectively under the Existing Share Scheme of the Company resulting in him being interested in the 4,607,545 shares as a beneficiary of a trust. The share award of 1,979,598 shares will be vested on 6 November 2024 and the share award of 2,627,947 shares will be vested on 8 March 2025.

2. 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.

3. 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.

4. On 13 September 2023 and 8 March 2024, Mr. Lin was granted a share award of 1,366,993 shares and 1,778,031 shares in the Company respectively under the Existing Share Scheme of the Company resulting in him being interested in the 3,145,024 shares as a beneficiary of a trust. The share award of 1,366,993 shares will be vested on 13 September 2024 and the share award of 1,778,031 shares will be vested on 8 March 2025.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 30 June 2024, 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 2024, 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	64.44%
Hon Hai *(Notes 1 and 2)*	Interest of a controlled corporation	5,081,034,525	64.44%

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 chairman of the Board and an executive director of the Company, is a director of a subsidiary and an associate of Hon Hai.

DISCLOSURE OF INTERESTS *(Continued)*

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares *(Continued)*

Save as disclosed above, as at 30 June 2024, 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.

SHARE OPTION SCHEME AND SHARE SCHEME OF THE COMPANY

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 of the Listing Rules, 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 Company's annual general meeting held on 19 May 2023 ("2023 AGM").

For details, please refer to the Company's circular as issued and published on 13 April 2023, announcement in relation to the poll results of the 2023 AGM as issued on 19 May 2023 and page 109 to page 119 of the Company's 2023 annual report as issued and published on 18 April 2024 as well as note 17 to the unaudited condensed consolidated financial statements of the Group for the current period.

Since its adoption, no option has been granted under the Existing Share Option Scheme, and accordingly, no option was exercisable under the Existing Share Option Scheme as at 30 June 2024.

During the current period under review, pursuant to the approval of the Board on 7 March 2024 and the subsequent finalisation by the Board's delegate, the Company offered 4,405,978 ordinary shares to a total of 2 beneficiaries pursuant to the Existing Share Scheme, of which 4,405,978 ordinary shares were granted with lock-up periods up to 7 March 2025 from the grant dates (i.e. 8 March 2024). No consideration nor purchase price was payable on acceptance of offer of the shares. A total of 4,405,978 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in March 2024. Save as disclosed as aforesaid, no further share was granted under the Existing Share Scheme during the current period.

SHARE OPTION SCHEME AND SHARE SCHEME OF THE COMPANY *(Continued)*

Movements of share grants under the Existing Share Scheme during the current period (i.e. 1 January 2024 to 30 June 2024) were as follows:

Name of participant	Date of grant (dd.mm.yyyy)	Vesting period (dd.mm.yyyy)	Date of vesting (dd.mm.yyyy)	Purchase price	Number of shares granted under the Existing Share Scheme: Unvested Award Shares as of 1 January 2024	Granted during the period (Note 1)	Vested during the period	Cancelled/ forfeited during the period	Lapsed during the period	Unvested Award Shares as of 30 June 2024	Closing price of the Shares immediately before the date of grant (HK$)	Fair value of Award Shares at the date of grant (HK$) (Note 2)	Weighted average closing price of the Shares immediately before the date of vesting (HK$)
CHIH Yu Yang (executive director)	06.11.2023	06.11.2023 to 05.11.2024	06.11.2024	Nil	1,979,598	–	–	–	–	**1,979,598**	0.59	0.62	–
(resigned as chief executive officer with effect from 1 July 2024)	08.03.2024	08.03.2024 to 07.03.2025	08.03.2025	Nil	–	2,627,947	–	–	–	**2,627,947**	0.47	0.50	–
					1,979,598	2,627,947	–	–	–	**4,607,545**			
LIN Chia-Yi (executive director)	13.09.2023	13.09.2023 to 12.09.2024	13.09.2024	Nil	1,366,993	–	–	–	–	**1,366,993**	0.68	0.71	–
(appointed as chief executive officer with effect from 1 July 2024)	08.03.2024	08.03.2024 to 07.03.2025	08.03.2025	Nil	–	1,778,031	–	–	–	**1,778,031**	0.47	0.50	–
					1,366,993	1,778,031	–	–	–	**3,145,024**			
Total					3,346,591	4,405,978	–	–	–	**7,752,569**	–	–	–

Notes:

1. The shares had been granted subject to certain conditions, including the achievement of satisfactory performance targets achievement rating and the clawback mechanism adopted by the Board as more particularly described at page 21 of the Company's circular as issued and published on 13 April 2023. In relation to the above grants, the performance targets set for Mr. Chih and Mr. Lin (both being the Company's executive directors) respectively are generally summarised as follows (in this respect, it should be pointed out that the specific performance targets set for each of the Company's executive directors represent commercially sensitive information of the Company, particularly in the eyes of the Group's industry peers):

   Mr. Chih
   In respect of the relevant 12-month period applicable to the above grants: (a) Mr. Chih's individual performance in terms of his pre-determined key performance indicators ("KPIs"); (b) the specific functional targets assigned to Mr. Chih in his dual capacities as the Company's executive director and/or chief executive officer; (c) the financial and other objectives set for Mr. Chih; (d) the KPIs set for the office of the Company's chief executive officer to which the global members of the Group's global leadership team directly report; and (e) the additional performance targets as set forth in the Directors' Remuneration Policy of the Company as amended from time to time.

   Mr. Lin
   In respect of the relevant 12-month period applicable to the above grants: (a) Mr. Lin's individual performance in terms of his pre-determined KPIs; (b) the specific functional targets assigned to Mr. Lin in his capacity as the Company's executive director; (c) the financial and other objectives set for Mr. Lin; (d) the KPIs set for the Group's DMS (Design Manufacturing Solutions) business unit headed by Mr. Lin; and (e) the additional performance targets as set forth in the Directors' Remuneration Policy of the Company as amended from time to time.

SHARE OPTION SCHEME AND SHARE SCHEME OF THE COMPANY *(Continued)*

Notes: *(Continued)*

2. The fair value of the shares at the date of grant is measured by the quoted market price of the shares at the date of grant. In relation to equity-settled share-based payment transactions:

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

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

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

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

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

   - The cancellation of share options granted or ordinary shares granted is accounted for as an acceleration of vesting. The amount that would otherwise have been recognised for services received over the remainder of the vesting period is, therefore, recognised immediately.

The total number of share options and share awards available for grant under the Existing Share Option Scheme and the Existing Share Scheme respectively at the beginning and at the end of the current period was 791,700,000 Shares (representing 10% of the total number of Shares in issue as at the date of adoption, i.e. 19 May 2023).

It follows that the total number of Shares that might be issued in respect of options and share 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 the date of adoption, i.e. 19 May 2023). 791,700,000 Shares (representing the aforesaid total number of Shares) when divided by 7,887,522,863 Shares (representing the weighted average number of Shares in issue for the current period) was 0.10037.

BFIH adopted a share option scheme (the "BFIH Share Option Scheme") on 28 May 2021. For details, please refer to page 118 to page 119 of the Company's 2023 annual report as issued and published on 18 April 2024. For the purposes of the Chapter 17 of the Listing Rules, BFIH is not a "principal subsidiary" of the Company on the basis that during the current period and up to the date of this report, the revenue, profits or total assets of BFIH did not, and does not, account for 75% or more of that of the Company under the applicable percentage ratios (as defined in the Listing Rules) in any of the latest three financial years (including the current period). Accordingly, the relevant provisions of the Chapter 17 of the Listing Rules do not apply to 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.

DIVIDEND

On 9 August 2024, the Board resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2024.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period and up to 9 August 2024 being the date of this interim report, pursuant to the Buy-back Mandate (as defined in the Company's circulars dated 14 April 2023) duly approved by the Company's shareholders at the 2023 AGM of the Company, the Company bought back in multiple batches a total of 10,700,000 shares of the Company on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK$5,725,460.00 during the period from 2 January 2024 to 2 April 2024 (both dates inclusive). Among these shares of the Company so bought back, 4,400,000 shares and 6,300,000 shares were cancelled on 15 January 2024 and 10 April 2024 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 circulars dated 14 April 2023 as well as the next day disclosure returns and monthly returns as issued and published during the period from 2 January 2024 to 2 May 2024 (both dates inclusive).

Details of the shares repurchased 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)
		Highest	Lowest	
		HK$	HK$	HK$
2 January 2024	1,400,000	0.60	0.59	834,000.00
3 January 2024	300,000	0.59	0.59	177,000.00
4 January 2024	1,600,000	0.59	0.58	931,000.00
5 January 2024	1,100,000	0.60	0.59	652,000.00
8 March 2024	85,000	0.47	0.47	39,950.00
19 March 2024	744,000	0.51	0.51	379,440.00
22 March 2024	921,000	0.50	0.49	454,465.00
25 March 2024	2,900,000	0.50	0.49	1,431,250.00
26 March 2024	500,000	0.495	0.495	247,500.00
27 March 2024	217,000	0.495	0.495	107,415.00
28 March 2024	133,000	0.51	0.51	67,830.00
2 April 2024	800,000	0.51	0.50	403,610.00
	10,700,000			5,725,460.00

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

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 14 to the unaudited condensed consolidated financial statements of the Group for the current period. The Company did not hold any treasury shares during the current period.

RESERVES

Movements in reserves of the Group during the current period are set out on page 9.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company has established and maintained an audit committee in accordance with the requirements of the Listing Rules, particularly the Corporate Governance Code as set out in Appendix C1 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 the Company's interim report for the current period and recommended the same to the Board for approval. In addition, the unaudited condensed consolidated financial statements of the Group for the current period have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE

The Company has applied and complied with all the code provisions set out in Part 2 of the CG Code during the current period except for the following deviation:

Pursuant to paragraph C.2.1 of Part 2 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. CHIH Yu Yang acted as the chief executive officer and the acting chairman since 1 January 2017. 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 instability that may be caused following the resignation of the former chairman and former executive director. To address the potential corporate governance issues brought by the absence of separation of the roles, the Company has implemented and maintained a number of internal control measures to highlight the roles of the directors and senior management of the Company in scrutinizing the decision-making processes applicable to certain material matters of the Group and also monitoring the exercise of power by the then acting chairman and chief executive officer.

For the purposes of corporate governance enhancements and full compliance with paragraph C.2.1 of Part 2 of the CG Code, the Board has resolved the following changes in the executive function of the corresponding directors of the Company, in all cases with effect from 1 July 2024:

(1) Mr. CHIH Yu Yang, an executive director of the Company, has been re-designated from acting chairman to chairman of the Board and resigned as the chief executive officer of the Company.

(2) Mr. LIN Chia-Yi (also known as Charles LIN), an executive director of the Company, has been appointed as the chief executive officer of the Company.

Further, the Company has clearly established and set out in writing the division of responsibilities between the chairman and chief executive officer to ensure a balance of power and authority between the management of the Board and the management of the business of the Company. This separation also enhances the Board's independence.

On behalf of the Board
CHIH Yu Yang
Chairman of the Board

Hong Kong, 9 August 2024