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**FIH Mobile Limited**

**富 智 康 集 團 有 限 公 司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2038)**

# ANNOUNCEMENT OF (1) UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND (2) CERTAIN ADDITIONAL FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2019

## (1) UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2020*

| | | **Six months ended** | |
|---|---|---|---|
| | *NOTES* | **30.6.2020** **US$'000** **(unaudited)** | 30.6.2019 *US$'000* (unaudited) |
| Revenue | *4* | **3,668,273** | 6,389,177 |
| Cost of sales | | **(3,670,938)** | (6,345,574) |
| Gross (loss) profit | | **(2,665)** | 43,603 |
| Other income, gains and losses | | **101,774** | 107,066 |
| Selling expenses | | **(7,538)** | (7,879) |
| General and administrative expenses | | **(92,747)** | (115,033) |
| Research and development expenses | | **(82,200)** | (86,603) |
| Interest expenses | | **(7,694)** | (22,058) |
| Share of profit of associates | | **4,118** | 4,166 |
| Share of profit of joint ventures | | **–** | 5 |
| Loss before tax | | **(86,952)** | (76,733) |
| Income tax expense | *5* | **(14,346)** | (7,106) |
| Loss for the period | *6* | **(101,298)** | (83,839) |

| | NOTE | Six months ended 30.6.2020 US$'000 (unaudited) | 30.6.2019 US$'000 (unaudited) |
|---|---|---|---|
| Other comprehensive (expense) income: | | | |
| *Item that will not be reclassified to profit or loss:* | | | |
| Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income | | **(28,752)** | 8,040 |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(79,023)** | 3,548 |
| Share of translation reserve of associates | | **(643)** | 146 |
| Share of translation reserve of joint ventures | | **–** | (21) |
| | | **(79,666)** | 3,673 |
| Other comprehensive (expense) income for the period | | **(108,418)** | 11,713 |
| Total comprehensive expense for the period | | **(209,716)** | (72,126) |
| (Loss) profit for the period attributable to: | | | |
| Owners of the Company | | **(100,508)** | (84,083) |
| Non-controlling interests | | **(790)** | 244 |
| | | **(101,298)** | (83,839) |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | **(209,022)** | (72,315) |
| Non-controlling interests | | **(694)** | 189 |
| | | **(209,716)** | (72,126) |
| Loss per share | *8* | | |
| Basic | | **(US1.2 cents)** | (US1.0 cent) |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 30 June 2020*

| | *NOTES* | **30.6.2020** **US$'000** **(unaudited)** | 31.12.2019 *US$'000* (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | *9* | **911,768** | 991,237 |
| Right-of-use assets | *9* | **81,335** | 72,700 |
| Investment properties | *9* | **17,052** | 3,965 |
| Financial assets at fair value through profit or loss | | | |
| — Equity instruments | | **4,318** | 3,739 |
| — Convertible notes | | **678** | 666 |
| Financial assets at fair value through other comprehensive income | | | |
| — Equity instruments | | **96,649** | 124,128 |
| Interests in associates | | **31,415** | 27,940 |
| Interests in joint ventures | | **–** | – |
| Deferred tax assets | *10* | **16,785** | 19,567 |
| Deposit for acquisition of right-of-use assets | | **26,946** | 27,327 |
| | | **1,186,946** | 1,271,269 |
| Current assets | | | |
| Inventories | | **713,327** | 795,821 |
| Trade and other receivables | *11* | **2,074,869** | 3,299,023 |
| Financial assets at fair value through profit or loss | | | |
| — Short-term investments | | **120,701** | 71,939 |
| Bank deposits | | **18,822** | 19,200 |
| Bank balances and cash | | **1,444,389** | 1,545,269 |
| | | **4,372,108** | 5,731,252 |
| Current liabilities | | | |
| Trade and other payables | *12* | **2,513,966** | 4,007,915 |
| Contract liabilities | | **167,049** | 140,249 |
| Lease liabilities | | **7,778** | 20,150 |
| Bank borrowings | *13* | **837,120** | 605,728 |
| Provision | *14* | **12,741** | 13,185 |
| Tax payable | | **79,186** | 76,860 |
| | | **3,617,840** | 4,864,087 |
| Net current assets | | **754,268** | 867,165 |
| Total assets less current liabilities | | **1,941,214** | 2,138,434 |

| | NOTES | **30.6.2020** | 31.12.2019 |
|---|---|---|---|
| | | ***US$'000*** | *US$'000* |
| | | **(unaudited)** | (audited) |
| Capital and reserves | | | |
| Share capital | | **328,120** | 328,456 |
| Reserves | | **1,557,344** | 1,766,030 |
| Equity attributable to owners of the Company | | **1,885,464** | 2,094,486 |
| Non-controlling interests | | **5,420** | 6,114 |
| Total equity | | **1,890,884** | 2,100,600 |
| Non-current liabilities | | | |
| Deferred tax liabilities | *10* | **11,663** | 13,106 |
| Deferred income | *15* | **17,833** | 18,891 |
| Lease liabilities | | **20,834** | 5,837 |
| | | **50,330** | 37,834 |
| | | **1,941,214** | 2,138,434 |

*Notes:*

1. **INDEPENDENT REVIEW**

The interim results for the six months ended 30 June 2020 are unaudited, but have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The unmodified review report will be included in the interim report to be sent to the Company's shareholders.

2. **BASIS OF PREPARATION**

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

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.

**Significant events in the current interim period**

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. Due to the lockdown in the PRC in the first quarter and India in the second quarter, the Group's operations that had been temporarily closed, are now being gradually reopened in accordance with certain limitations imposed by local governments. The duration and intensity of this global health emergency and the uprising geopolitical tensions, including the disputes between U.S.-China and China-India, bring all the negative impacts and uncertainties to the Group's current interim financial positions and performance. Notwithstanding all of that, the Group's financial resources (including cash, cash flow and liquidity positions) remain sufficient to finance its continuing operations and the management acted quickly to further improve the Group's financial position in this uncertain environment.

3. **PRINCIPAL ACCOUNTING POLICIES**

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

**Application of amendments to IFRSs**

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IFRS 3 | Definition of a Business |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform |

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

**Impacts of application on Amendments to IAS 1 and IAS 8 "Definition of Material"**

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

## 4. REVENUE AND SEGMENT INFORMATION

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

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

The Group's revenue is from contracts with customers and mainly arising from the manufacturing services (including sales of goods and processing service) amounting to US$3,668,273,000 (2019: US$6,389,177,000), to its customers in connection with the production of handsets.

From 1 January 2019, the Group discontinued its distribution business. For the six months ended 30 June 2019, pre-tax profit and operating expenses in relation to the distribution business amounted to US$19,755,000 (2020: nil) and US$5,196,000 (2020: nil) respectively.

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

| | Six months ended | |
|---|---|---|
| | **30.6.2020** | 30.6.2019 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| Segment revenue (external sales) | | |
| Asia | **3,351,241** | 5,346,674 |
| Europe | **212,363** | 556,802 |
| America | **104,669** | 485,701 |
| Total | **3,668,273** | 6,389,177 |
| Segment profit | | |
| Asia | **12,050** | 58,795 |
| Europe | **6,453** | 7,383 |
| America | **7,720** | 20,851 |
| | **26,223** | 87,029 |
| Other income, gains and losses | **65,348** | 55,761 |
| General and administrative expenses | **(92,747)** | (115,033) |
| Research and development expenses | **(82,200)** | (86,603) |
| Interest expenses | **(7,694)** | (22,058) |
| Share of profit of associates | **4,118** | 4,166 |
| Share of profit of joint ventures | **–** | 5 |
| Loss before tax | **(86,952)** | (76,733) |

Majority of the Group's sales to Asian customers are attributed to the PRC included in Asia.

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

## 5. INCOME TAX EXPENSE

The charge (credit) comprises:

| | Six months ended | |
|---|---|---|
| | **30.6.2020** | 30.6.2019 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| Current tax: | | |
| — Hong Kong | **–** | – |
| — Other jurisdictions | **15,776** | 10,470 |
| | **15,776** | 10,470 |
| Overprovision in prior periods: | | |
| — Hong Kong | **–** | – |
| — Other jurisdictions | **(1,288)** | – |
| | **(1,288)** | – |
| Deferred tax *(note 10)* | | |
| Current period | **(142)** | (3,364) |
| | **14,346** | 7,106 |

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

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2019: 25%). Two of the Company's PRC subsidiaries were awarded with the Advanced — Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% for a period of 3 years, i.e. effective from 2017 and 2019, respectively. Besides, one of the Company's PRC subsidiaries was entitled to a concessionary tax rate of 15% under the China's "Great Western Expansion" campaign. Except these subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2019: 25%).

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

## 6. LOSS FOR THE PERIOD

| | Six months ended | |
|---|---|---|
| | **30.6.2020** | 30.6.2019 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| Loss for the period has been arrived at after charging (crediting): | | |
| Depreciation of property, plant and equipment | **91,079** | 94,052 |
| Depreciation of right-of-use assets | **3,752** | 3,595 |
| Depreciation of investment properties | **393** | 535 |
| Total depreciation | **95,224** | 98,182 |
| Less: Amount capitalised in inventories | **(79,878)** | (72,705) |
| Less: Amount included in research and development expenses | **(4,919)** | (3,807) |
| | **10,427** | 21,670 |
| Cost of inventories recognised as expense | **3,628,008** | 6,289,895 |
| (Gain) loss on disposal of and write-off of property, plant and equipment | **(16)** | 909 |
| Gain on disposal of investment properties | **(657)** | – |
| Provision for warranty | **3,143** | 7,975 |
| Write down of inventories to net realisable value | **39,787** | 47,704 |
| Impairment loss recognised in respect of trade receivables, net | **7,045** | 108 |
| Impairment loss recognised for interest in a joint venture | **–** | 2,374 |
| Net gain arising on short-term investments at fair value through profit or loss ("FVTPL") | **(1,572)** | (6,229) |
| Net gain arising on equity instruments at FVTPL | **(579)** | (3,762) |
| Net exchange (gain) loss (included in other income, gains and losses) | **(7,064)** | 7,768 |
| Interest income from bank deposits | **(17,067)** | (16,905) |

## 7. DIVIDENDS

No dividend was paid, declared or proposed for the six months ended 30 June 2020 and 30 June 2019. The directors did not recommend the payment of an interim dividend for the six months ended 30 June 2020 and 30 June 2019.

## 8. LOSS PER SHARE

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

| | Six months ended | |
|---|---|---|
| | **30.6.2020** | 30.6.2019 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| **Loss attributable to the owners of the Company** | | |
| Loss for the purposes of basic loss per share | **(100,508)** | (84,083) |

| | Six months ended | |
|---|---|---|
| | **30.6.2020** | 30.6.2019 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **8,203,000,000** | 8,214,074,906 |

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

During the current period, the Group acquired property, plant and equipment of approximately US$45,710,000 (for the six months ended 30 June 2019: US$88,054,000).

In addition, the Group entered into several new lease agreements with lease term ranged from two to ten years. On lease commencement, the Group recognised right-of-use assets of approximately US$17,712,000 (for the six months ended 30 June 2019: US$14,146,000) and lease liabilities of US$17,712,000 (for the six months ended 30 June 2019: US$14,146,000).

During the current period, the Group disposed of and wrote off certain property, plant and equipment with an aggregate carrying amount of US$4,359,000 (for the six months ended 30 June 2019: US$4,092,000) for proceeds of US$4,375,000 (for the six months ended 30 June 2019: US$3,183,000), resulting in a gain on disposal and write-off of US$16,000 (for the six months ended 30 June 2019: loss of US$909,000).

In addition, the Group disposed of certain investment properties with an aggregate carrying amount of US$153,000 (for the six months ended 30 June 2019: nil) for proceeds of US$810,000 (for the six months ended 30 June 2019: nil), resulting in a gain on disposal of US$657,000 (for the six months ended 30 June 2019: nil).

## 10. DEFERRED TAXATION

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

| | Allowances for inventories and trade and other receivables *US$'000* | Accelerated tax depreciation *US$'000* | Tax losses *US$'000* | Others *US$'000* *(Note)* | Total *US$'000* |
|---|---|---|---|---|---|
| At 1 January 2019 (audited) | (5,742) | 10,414 | (4,190) | (10,341) | (9,859) |
| (Credit) charge to profit or loss for the period | (4,830) | 6,098 | (1,468) | (3,164) | (3,364) |
| Exchange adjustments | (212) | 185 | (175) | (181) | (383) |
| At 30 June 2019 (unaudited) | (10,784) | 16,697 | (5,833) | (13,686) | (13,606) |
| **At 1 January 2020 (audited)** | **(3,357)** | **9,336** | **(7,426)** | **(5,014)** | **(6,461)** |
| (Credit) charge to profit or loss for the period | **(903)** | **218** | **6,475** | **(5,932)** | **(142)** |
| Exchange adjustments | **162** | **(275)** | **951** | **643** | **1,481** |
| At 30 June 2020 (unaudited) | **(4,098)** | **9,279** | **–** | **(10,303)** | **(5,122)** |

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

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

| | **30.6.2020** ***US$'000*** **(unaudited)** | 31.12.2019 *US$'000* (audited) |
|---|---|---|
| Deferred tax assets | **(16,785)** | (19,567) |
| Deferred tax liabilities | **11,663** | 13,106 |
| | **(5,122)** | (6,461) |

At 30 June 2020, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, deferred income and other accrued expenses of approximately US$181,634,000 (31.12.2019: US$191,690,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 30 June 2020, the Group has unused tax losses of approximately US$1,748,855,000 (31.12.2019: US$1,724,838,000) available for offset against future profits. As at 31 December 2019, a deferred tax asset had been recognised in respect of approximately US$24,754,000 of such losses. As at 30 June 2020, no deferred tax asset has been recognised in respect of the tax losses of approximately US$1,748,855,000 (31.12.2019: US$1,700,084,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. The unrecognised tax losses will expire by 5 consecutive years.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$1,040,144,000 (31.12.2019: US$1,175,857,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 11. TRADE AND OTHER RECEIVABLES

| | **30.6.2020** | 31.12.2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Trade receivables | **1,783,902** | 2,860,399 |
| Less: Allowance for credit losses | **(8,556)** | (1,593) |
| | **1,775,346** | 2,858,806 |
| Other taxes recoverables | **93,695** | 288,715 |
| Other receivables, deposits and prepayments | **205,828** | 151,502 |
| Total trade and other receivables | **2,074,869** | 3,299,023 |

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

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

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

| | **30.6.2020** | 31.12.2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| 0 — 90 days | **1,448,953** | 2,844,143 |
| 91 — 180 days | **255,680** | 4,605 |
| 181 — 360 days | **61,238** | 2,905 |
| Over 360 days | **9,475** | 7,153 |
| | **1,775,346** | 2,858,806 |

During the current interim period, the Group provided impairment allowance of US$8,556,000 (for the six months ended 30 June 2019: US$1,903,000) based on the Group's expected credit loss assessment on its trade receivables.

## 12. TRADE AND OTHER PAYABLES

| | **30.6.2020** | 31.12.2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Trade payables | **1,812,334** | 3,200,810 |
| Accruals and other payables | **701,632** | 807,105 |
| | **2,513,966** | 4,007,915 |

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

| | **30.6.2020** | 31.12.2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| 0 — 90 days | **1,327,422** | 3,018,163 |
| 91 — 180 days | **424,308** | 158,189 |
| 181 — 360 days | **15,307** | 10,553 |
| Over 360 days | **45,297** | 13,905 |
| | **1,812,334** | 3,200,810 |

## 13. BANK BORROWINGS

| | **30.6.2020** | 31.12.2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Bank loans | **837,120** | 605,728 |

Analysis of bank borrowings by currency:

| | | |
|---|---|---|
| United States dollar ("US$" or "USD") | **835,800** | 605,000 |
| Indian rupee ("INR") | **1,320** | 728 |
| | **837,120** | 605,728 |

The bank borrowings as at the end of the reporting period are unsecured, with original maturity of one to three months (31.12.2019: one to six months), repayable within one year and carry interest at fixed interest rates ranging from 0.85% to 8.00% (31.12.2019: 2.14% to 7.85%) per annum.

## 14. PROVISION

| | **Warranty provision** *US$'000* |
|---|---|
| At 1 January 2019 | 102,719 |
| Exchange adjustments | (111) |
| Provision for the period | 12,001 |
| Utilisation of provision | (59,465) |
| Settlement through non-cash transaction *(note)* | (41,959) |
| At 31 December 2019 | **13,185** |
| Exchange adjustments | **(138)** |
| Provision for the period | **3,143** |
| Utilisation of provision | **(3,449)** |
| At 30 June 2020 | **12,741** |

*Note:* During the year ended 31 December 2019, the Group entered into an arrangement with its customer under the discontinued operation to offset warranty provision and trade receivable of US$41,959,000.

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

## 15. DEFERRED INCOME

| | **30.6.2020** ***US$'000*** **(unaudited)** | 31.12.2019 *US$'000* (audited) |
|---|---|---|
| Government subsidies | **17,833** | 18,891 |

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

## 16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Financial assets and financial liabilities subject to offsetting

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

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

| | **As at 30 June 2020** | | |
|---|---|---|---|
| **Financial assets/liabilities subject to offsetting** | **Gross amounts of recognised financial assets (liabilities)** | **Gross amounts of recognised financial (liabilities) assets set off in the condensed consolidated statement of financial position** | **Net amounts of financial assets (liabilities) presented in the condensed consolidated statement of financial position** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Bank balances | **941,548** | **(941,548)** | **–** |
| Bank borrowings | **(941,548)** | **941,548** | **–** |
| Interest receivables | **9,320** | **(8,313)** | **1,007** |
| Interest payables | **(8,313)** | **8,313** | **–** |

| | As at 31 December 2019 | | |
|---|---|---|---|
| Financial assets/liabilities subject to offsetting | Gross amounts of recognised financial assets (liabilities) | Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position | Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position |
| | *US$'000* | *US$'000* | *US$'000* |
| Bank balances | 1,051,156 | (1,051,156) | – |
| Bank borrowings | (1,051,156) | 1,051,156 | – |
| Interest receivables | 21,506 | (19,353) | 2,153 |
| Interest payables | (19,353) | 19,353 | – |

During the period, net interest income of US$1,597,000 (for the six months ended 30 June 2019: US$1,339,000) was included in interest income under the above arrangement.

## IMPORTANT

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

The Company refers to its announcements of 14 May, 5 June and 21 July 2020 respectively, which in turn refer to (among other things) the challenging conditions that the Group has been facing since late 2017. For more details, please see the "Outlook" section below. 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 the Group is likely to record a consolidated net loss for the year ending 31 December 2020, though the Company is currently unable to reasonably and meaningfully estimate a precise likely magnitude of such consolidated net loss for the year ending 31 December 2020. The Company will make further announcement(s) in compliance with the Listing Rules and/or the SFO, as appropriate.

This announcement contains forward-looking statements regarding the Company's expectations and outlook on the Group's business operations, opportunities and prospects. Such forward-looking statements do not constitute guarantees of the future performance of the Group and are subject to factors that could cause the Group's actual results to differ (possibly materially) from those expressed in the forward-looking statements. These factors may include, but may not be limited to, changes in general industry and macro-economic environment (such as intensifying trade wars and political conditions), changes in money markets (such as interest rate hikes and volatility in foreign exchange rates), changes in capital markets, competition, shifts in customers' demand and preferences, seasonality of sales, changes in sales and product mix, changes in commodity price, shortage of components, technology advancement, and changes in market/legal/regulatory/government/tax policy (e.g. government's blacklisting, export controls and bans against the Group's major customer). In addition, new unpredictable risks emerge from time to time and it is not possible for the management to predict all such risk factors or to assess the impact of such risk factors on the Group's business. For more details, please see the "Outlook" section below. The Company undertakes no obligation to update or revise any such forward-looking statements to reflect any subsequent events or circumstances, except as otherwise required by applicable requirements laid down by the Listing Rules and the SFO.

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

## INTRODUCTION

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (Hon Hai is a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation), and a leader in the handset industry worldwide as a vertically integrated manufacturing services provider with business models offering a comprehensive range of end-to-end components and manufacturing and engineering services to its customers in respect of handsets and other wireless communication devices and consumer electronic products, including unique and innovative product development and design, casings (including casings sold to customers and casings used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly etc., and supply chain services and solutions, and repair and other after-sales services which are located close to the customers. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as e-Readers, tablets, and voice interaction products like smart speakers.

The Group strives to provide its customers on a global basis with not only product development and manufacturing support and solutions, but also a full range of cost-competitive services including repair services on a global basis, and the Company believes that this strategy differentiates the Group from its competitors and will help to support its customers' products during their entire life cycles and reduce the lead time required to bring the products to the highly dynamic and competitive market and fosters long-term business relationships with customers.

## DISCUSSION AND ANALYSIS

### Key Relationships with Customers, Suppliers and Employees

The Group's major customers include top international brands and Chinese brands. The Group's Chinese customers were originally focused on their home market, but nowadays, with the advance in its capital and technologies and knowledge of markets, they have become extremely successful in different countries and markets and the expansion outside the Chinese market mitigates the Group's risk. The Group has established manufacturing facilities and operations, Research and Development ("R&D") centres and phone repair and refurbishment facilities located close to its customers across the Asia-Pacific region (e.g. China, India, Vietnam, Taiwan) and the America including Mexico to better facilitate customers' respective local needs and enable such customers to accelerate the launch of their products to market. While the COVID-19 pandemic has impacted various industries and economies across the globe, all of our customers are impacted by various extent. The Chinese domestic smart phone shipment down 16.1% in the first half of 2020 due to the impact of COVID-19 and the expected "retaliatory consumption" has not yet appeared as many countries are still suffering from the COVID-19 crisis.

As the trade tension between U.S. and China escalated since 2019, one of the Group's key customers in China was placed in President Trump's executive order against national security threats, and because of U.S. sanctions, an essential package of apps is prohibited to be installed in the new models due to the pressure from U.S. government. This customer's latest phones have landed well in China and remain firmly in control of its domestic market but the performance elsewhere are less than expected despite investment and focus on its own Android open-source interface, App Gallery and suite of mobile services. On 15 May 2020, the U.S. Department of Commerce announced it is 6th extension of the Temporary General License (TGL) authorisations for this customer on the Entity List for 90 days. However, on the exact same date, The Bureau of Industry and Security (BIS) announced plans to protect U.S. national security and issued the amend longstanding foreign-produced direct product rule and the Entity List to narrowly and strategically target this customer's acquisition of semiconductors that are the direct product of certain U.S. software and technology.

Meanwhile, with the Group's strong support in oversea market, another key customer's successfully grew its shipment in oversea market including India, Europe and other and offset the adverse impacts on such key customer arising from above-named competitor's refocus in the Chinese market. In 2020, this customer is seeking to further strengthen its presence in these overseas market countries to fill the gap of a Chinese competitor and grow its smartphone business in regions apart from its home country, China. The recently geopolitical tensions between India and China put a backlash against this customer yet will not impact the business in a major way according to its India managing director. The Indian and European market of this customer will likely regain their momentum after the various government imposed lockdowns are relaxed.

Another customer is Ensky Technology Pte. Ltd. ("Ensky") which the Group has been manufacturing consumer electronic products such as eReaders and tablets and voice interaction products for a long time and the Group is now a strategic supplier and the Group's strong engineering capability can satisfy customer's requirements and expectations in terms of ramping up high volume program in a short period and achieving very high yield rate. Ensky is a trading company which has a long established relationship with U.S. customers and sells consumer electronic products to them. The sales to Ensky are grouped under Asia segment as it is a Singapore company. Ensky was acquired by Hon Hai on 1 January 2020 and become wholly owned subsidiary of Hon Hai and a connected person of the Company pursuant to the Listing Rules.

The Group's another customer, HMD global Oy ("HMD"), is headquartered in Espoo, Finland and is the home of Nokia phones. As manufacturer of Nokia-branded smart phones and feature phones, it is targeting worldwide mobile phone market with full price range. Sales to HMD are grouped under Europe segment. By working with best in-class industry partners, HMD has assembled an ecosystem of strong partnerships in imaging, software and manufacturing. With a commitment to innovation and quality, HMD is the exclusive licensee of the Nokia brand for phones and tablets. HMD is responsible for IP (Intellectual Property) right management, product development, sales and marketing for the mobile devices and related services. For details, please see "Investments" section below. Because of the outbreak of COVID-19, HMD suppliers in China were impacted first, reducing the device supply during first half of 2020. Like other market players, the demand of HMD dropped, especially in retail business, because of the restrictions in major countries (where distributors and retailers are located) due to the

epidemic which many countries struggled with. In addition, some countries (like Pakistan, Bangladesh, Tunisia, Vietnam, Indonesia, Saudi Arabia, Djibouti) have difficulties with payments due to the prolonged impact of COVID-19 as business has been stalled for a long time. The demand has recovered during second quarter of 2020 and slowly pick up as some countries have relaxed the restrictions which allows the market reopen. The Group has been manufacturing feature phones for HMD.

Another customer of the Group is Sharp Corporation ("Sharp"), which is a connected person of the Company pursuant to the Listing Rules as it is an associate of Hon Hai, the ultimate controlling shareholder of the Company. Sharp offers a variety of electronics product including not only smartphones but also home appliance, displays and other IoT devices. Japan, as its home market, offers the largest market on its mobile phone business which accounted for over 90% of its total revenue. According to IDC data, Sharp regained the top-2 ranking in Japan in the first quarter of this year in smart phone market. In order to explore more business opportunities, Sharp starts to offer other electronic devices such as MiFi router and tablet with the help from the Company's R&D resource and capabilities.

In relation to the Group's continuous fostering and development of long-term relationships and partnerships with a diversity of customers during the current period, the Group entered into collaboration with a U.S.-based Internet customer in 2018 who is one of the most innovative Internet companies in the world to bring the most advanced AI (Artificial Intelligence) technology-embedded smart phones to customers and consumers worldwide.

Thanks to the Group's strategy of continuous development and penetration of the Chinese and international brand customers and efforts to grow and diversify its lineup and expand its production capacity in India and Vietnam in previous year has seen lowered costs in these countries. As the U.S.-China trade tensions heated up in 2019, there is a wave of production facilities transition from China to other countries to minimise the potential risks and more companies are offloading production sites from China to other regions like Vietnam and India and shift production capacity to these countries. Some of the customers flocked to Vietnam, where the Group already has a large plant in Hanoi which allows the Group to serve the customers in the best manner and foster long-term business relationships. In the current context, Vietnam has been considering as an emerging star to attract foreign investment in the world in general and from China in particular. There are some favorable conditions of Vietnam to attract the investment capital flow such as open investment environment, high investment incentives (taxes, land rental), strong improvement of administrative procedures, cheap labor cost, high-skilled and young laborers, infrastructure, available built-factories, etc. Additionally, the prevention of the COVID-19 pandemic shows the determination of the Vietnam's Government to foreign investors for a stable and safe investment environment.

To serve the customers better, the Group has put a lot of effort to minimise impacts of COVID-19 to its productions and disruptions to customers. As a lot of countries have implemented local lockdowns, precautionary and quarantine measures as well as travel restrictions, those measures have led to the suspension of the Group's principal production and manufacturing activities as well as a slowdown in overall local demand and commercial activities for some time (for example, in India, some district lockdowns remained until at least 31 July 2020), all of which have contributed to a drop in the Group's sales, revenue, asset utilisation and contribution margin. In light of the reduction in scale of the Group's

manufacturing activities, the Group has had to re-arrange the shipment without violating any customer contract terms. In addition, as the operations of some of the Group's customers, suppliers, associates, joint ventures and investees are located in those countries with lockdowns, the outbreak of COVID-19 is expected to have a negative impact on these parties as people's lives are disrupted by social distancing measures and huge uncertainty and many of whom face the risk of a decline in sales and revenue and pressure on cash flow. The Group has been putting a lot of efforts to try to overcome the difficulties and resume the operations is a quick manner and have put effort to negotiate, discuss and arrange with its customers, vendors, suppliers, logistics partners to share the risks and reach mutual benefits and foster long-term relationship between the parties in the difficult time. In China, after operation resuming from lockdowns, orders are stable due to new product launch. While in India, due to the ongoing lockdown in different states in India, despite our factories have allowed to operate with limited workforce, would need close monitoring of the future market demand.

For PRC, the outbreak of COVID-19 and the subsequent quarantine measures imposed by the PRC government as well as the travel restrictions imposed by China and other countries in early 2020 have had some negative impacts on the operations of the Group, as a lot of the Company's operations are located in Shenzhen, Langfang and Guiyang in China. The Group had to postpone its manufacturing since the end of the Chinese New Year Holiday in late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group had re-opened all of its factories in China stage by stage since 10 February 2020, but they were not operating at normal capacity due to self-quarantine procedure, logistics, and travel restrictions in first quarter. Starting from April, the overall utilisation in China has been gradually improving as the Group has acquired the sufficient workforce at the end of March. Yet, not only the Chinese consumer market recovery speed is as not aggressive as our customers expected, the so called "retaliatory consumption" did not emerge, but the lockdowns taking places globally also draw down the global macro-economy to the weakest level in the history. As China is the center of world manufacturing, the weakened consumer demand directly impacted the Group's utilisation and the COVID-19 safety measures led extra costs to the Group.

For Vietnam, the Vietnamese Government has announced infectious pandemic on 1 February 2020 and declared COVID-19 pandemic in 1 April 2020 in Vietnam. At the same time of infectious announcement, the Vietnamese has strictly imposed various of disease prevention and protection such as social distancing, quarantine rules, travel restriction/ban, suspension of visa issuance for foreigners, close of border gates etc. These moves which aims to control the spread of pandemic has had significant impact to the normal operation of our factory in Vietnam. In relation to Vietnam's operation from early 2020, it prepared material buffers for production after long traditional Lunar New Year holiday in Vietnam and China late January 2020. And then the unforeseeable COVID-19 pandemic started in China and has been spreading all over the world including Vietnam. However, thanks for the reserve of materials and the support from affiliates of Hon Hai Group, Vietnam site has enough materials to keep operation that fulfill customer demand during lockdown period in China. From April 2020, China factories have gradually restored the operation which eases the pressure on shortage of material to Vietnam operation and we were able to fulfill the demand from our customers even though logistics routes have been affected by restriction in movement from many countries. Currently, thanks for the loosen methods and effort of economic resume from the Vietnamese Government, the Vietnam factory has succeeded to gradually restore its operation as normal.

Thanks for the buffer of materials and support from other affiliates of Hon Hai Group, Vietnam factory still fulfills customers' orders while there are many factories which are unable to operate at that time. However, the shortage of materials, supply chain, logistics and others have been in recovery process since April 2020 so that our Vietnam operation went back to normal operation. However, in general, our Vietnam factory is still facing the decline of demand in the world's market due to the spread of the COVID-19 pandemic. It is expected that the demand in the world's market will be significantly increasing in later time as the governments of many countries are loosening restrictions and resume their economies but the divert demand from China to Vietnam will help our Vietnam factory to lower the demand loss due to COVID-19.

For India, the first case of COVID-19, a pandemic was reported in India on 30 January 2020 and till July, India has the largest number of reported cases in Asia. While there is a surge in the reported cases on daily basis, the recovery rate is also going up. India's response to the pandemic is comprehensive and robust which are enabled through stringent action plans, emergency policy making, fiscal stimulus and investment in health care services. The overnight announcement of lockdown halted the Group's India production operations in tracks. Our immediate priority was to send 15,000 operators back home safely. Simultaneously, we ensured that critical facilities at its sites continued to run to avoid breakdowns by incentivising maintenance staff. While India awaited 21-day lock-down announced on 24 March 2020 to end, the Group learned from Taiwan headquarters which had successfully contained the spread of virus at its sites with a strategy built around three guiding principles of quarantine, epidemic prevention and isolation. Guided by these principles, the Group framed a set of Standard Operating Procedures (SOPs) for precautionary measures, area management, awareness creation, social distancing and personnel management. Impressed with our arrangements and undoubted commitment to the community, approvals were given to restart our operations.

Despite of all the difficulties encountered during COVID-19, the Company has been working hard and doing everything that it reasonably can to maximise its performance through these challenging times. At the time, the Group might not be able to give a clear indication of how its profits would look for the rest of the year, owing to the unprecedented uncertainty of the virus. "Prevention of outbreak, resumption of work and production are our top priority.".

COVID-19 and the efforts underway to control its effects are literally bringing much of the world to a standstill which entails tremendous risks and to put in train a process of de-globalisation. Many companies have realised the risks of this over-interdependence and intend to curb it. A Bank of America report states that 80% of the multinationals investigated plan to repatriate part of their production, known as re-shoring, a trend that COVID-19 could turn into a tidal wave. Currently, there is a wave of production facilities transition from China to other countries to minimise the potential risks and disruption of operation due to the COVID-19 pandemic and USA and China trade war. When the pandemic is finally overcome, globalisation will resume but in a guise that is less intense and different from the one we have known up to now. The global standstill will have lasting and not necessarily positive consequences.

Apart from offering production sites in different countries, the Group's strategy and business model are to work with the customers from the initial concept design stage up until the end of the production process managing all aspects of sourcing, development and assembly and services of phone and provide a complete range of cost-competitive and vertically-integrated global supply chain solutions for its customers. This enables its customers to leverage on its supply chain solutions to meet their product requirements throughout the life cycle of their products. The Group secures front-end trends by working closely with supply chain and suppliers and creating win-win for both the Group and customers by developing practical solutions. But because of outbreak of COVID-19, end market demand becomes uncertain and our customers are more cautious in their demand planning and demand visibility is shortened. After building long-term partnership with customers, the Group is able to communicate effectively with the customers and accelerate manufacturing whilst meeting specifications and quality requirements from customers. At the same time, the Group has been consistently putting effort on improving operation management and process and efficiency optimisation, research and development, streamlining production process to improve learning curves and yield, human resource management and development to deliver all projects in a timely manner. There has been more than usual pressure on pricing coming from the largest players in the industry fighting against the recent trend in market share development and all of the Group's customers have been facing challenges of various kinds. Customers which own manufacturing facilities and capabilities may reduce outsourcing so as to optimise its own capacity utilisation. On the other hand, the core business of one key customer is not in mobile phone sector and any change to the business strategy of this customer may affect the Group's sales to this customer. The Group will continue to explore opportunities in new projects, new products and new customer development on the solid foundation of existing products and customers. Confronting more diversified product lines and customer demands, the Group will deliberately enhance the core competence by means of optimising production process, magnifying efficiency, escalating automation, executing solid cost-control measure and cultivating talents.

Amongst the Group's five largest customers (including HMD), one of them is newly added to the five largest customers. During the current period, they accounted for approximately 91.34% of the Group's total revenue and three of them have long-term and well-established relationships with the Group for more than five years whilst the other two have been the Group's customers for more than two years. These major customers are not required to commit to certain minimum purchase value or volume from the Group over a period of time. In the current dynamic and competitive handset industry, innovation and enhanced user experience and product pricing and quality are paramount and loss of or changes in market position of any of these customers or their products may materially and adversely affect the Group's business, financial condition and results of operation, especially in view of the concentration of its sales to these customers. The Group's reliance on major customers means that the Group's performance is directly affected by the performance of these customers and their outsourcing strategy in a challenging handset industry and the Group pays attention to the change of market trend and external market dynamics and COVID-19 development.

Two of such five largest customers were Sharp Corporation, which is a connected person of the Company pursuant to the Listing Rules, as it is an associate of Hon Hai, the ultimate controlling Shareholder and Ensky, which is a wholly owned subsidiary of Hon Hai. The revenue derived from the sales of goods and rendering of services by the Group to Sharp Corporation and Ensky accounted for approximately 13.10% and 11.54% of the Group's total revenue from the sales of goods and rendering of services respectively for the current period.

Given that the industry is dominated by consolidated significant players, and in cases where the Group developed new smaller customers, it would be difficult for the Group to develop new customers that have similar business scale as the Group's existing major customers and would to a certain extent affect the Group's bargaining power. Further, it takes time for the Group to gear up its production facilities to produce products and provide services that are customised for new customers. In cases where the Group switches to or adds new customers, it typically takes the Group approximately 2 to 10 months to customise the Group's production facilities depending on the complexity and sophistication of products and associated business models. The replacement/upgrade cycle of smart phone has further prolonged in mature market such as America and Western Europe which is due to limited product and development innovation, smaller and narrowing gap between high-end and low-end models, the expectation of 5G era, and most importantly the COVID-19 disruption in economy. In emerging markets, while the penetration rate of smart phone is peaking up, the demand from replacing feature phones with smart phone decelerates. As IDC estimated, the worldwide feature phone market will reach a total of 347.3 million units and the 5 years CAGR has improved from a -13% last year to -11% in 2020. In light of the handset market saturation, the Group has intensified its focus on technology innovation and manufacturing efficiency to ensure user experience and cost competitiveness of products and values the mutually beneficial relationships with its customers, regardless of the size and scale of the customer, by providing high quality products and services of global standards at competitive prices in an efficient manner, manufacturing industry-leading and state-of-the-art products for its customers in different countries like China, Vietnam and India, offering customised services and flexibility to customers, and creating customer delight among passionate people engaged in a world-class manufacturing environment, and continues to prolong, develop, penetrate and foster closer relationships and partnerships with them for mutual benefit of the Group and such customers in the long run and secure optimal utilisation of manufacturing equipment and facilities of the Group. However, as one of the core business of one major customer is not in the handset business, any change to its business strategy on the phone business may impact the Group's business, which will consequently drive the Group to devote resources to this customer to provide best in class services. Similar to many industries in today's globalised world, the handset market experiences continuous consolidation where smaller-by-smaller number of leading players tend to capture a relatively significant market share. As an OEM/ODM/IDM (Original Equipment Manufacture/Original Design Manufacture/Innovative Design Manufacture) and manufacturing solution-provider in the handset industry, the Group has proactively managed growth and concentration risk in a balanced manner, in the dynamic and competitive market.

The credit period granted to the Group's major customers (whether or not it is a connected person of the Company) ranges from 30 to 90 days, which is in line with those granted to other customers. The allowance for credit loss made for the current period was US$7.05 million (when compared to the allowance for credit loss of US$0.11 million made for the same period in 2019), while allowance were made for specific exceptional circumstances and

based on the expected credit allowance assessment. Subsequent settlements of trade receivables from these major customers have been reviewed and have satisfactorily resulted in no credit-impaired receivables noted for the current period.

In order to secure adequate supply of key parts, maintain stronger bargaining power, and source good quality materials with competitive prices in a time-efficient manner without the need of relying on some major suppliers, the Group's procurement team deals with over 3,000 suppliers that supply components and other materials necessary for the Group's businesses, with the majority of them being reputable and qualified approved suppliers with long-term and stable relationships with the Group. Bill of material (BOM) cost control is of critical importance. During COVID-19, everyone along the chain is doing exactly the same, stop material from coming in and pushing finished goods going out. Suppliers try to push for goods movement to the Group. But in this difficult period of time, the Group has to preserve cash and control inventory level.

The Group's supply partners include suppliers for raw materials, electronic components and parts, display module, camera module, battery, enclosure and packaging materials, they are generally selected based on quality and reliability of materials and components, price competitiveness, technical and technological competence, innovation and engineering capability, on-time delivery, service quality, commercial terms for supply transactions, requirements from customers, scale and industry reputation and financial strength. Purchases from the Group's top five suppliers accounted for approximately 69.56% of total purchases of the Group in current period.

Amongst the top five suppliers, four of them have long-term and well-established business partnership with the Group for more than five years, while the remaining one has been the Group's supplier for more than one year. The Group's contracts with these major suppliers do not require them to reserve manufacturing capacity nor produce or guarantee minimum supplies to the Group, from which supply fluctuation exposure to the Group is low and under control. Notwithstanding the apparent consolidation of purchases from these major suppliers to secure competitive pricing, the Group is not at any material risk of disrupted supplies from the Group's suppliers as demands are planned with sufficient redundancy considering potential supply delay or shortage. In addition, there are vast number of alternative suppliers in the market for the Group to work with when it is decided necessary. The Group forecasts that it will not be subject to significant material cost increase or supply delay and the Group were to engage with new suppliers in instances where such need arises.

Notwithstanding that there are many suppliers in the market that the Group could potentially engage with, over the years the Group has consolidated its purchases with major suppliers due to the ease of procurement process, stability of supply and superior commercial terms (especially pricing) offered by them. One of the top five suppliers to the Group is the Hon Hai Group. Hon Hai is the ultimate controlling Shareholder and hence a connected person of the Company pursuant to the Listing Rules. Purchases attributable to the Hon Hai Group accounted for approximately 11.79% of the Group's total purchases in current period.

COVID-19 pandemic has stormed the globe since late 2019 and its collateral damage on top of obvious supply and demand disruption to consumer electronics industry remains to be played out. It is clear now that, in certain industries, to certain regions, things will never recover and they'll change and evolve into a new structure over time. The Group, like everyone else in the business, had suffered supply slowdown from a nationwide shutdown in China during first quarter of this year, and, later, as it evolved, from following closedown in South Korea and Japan, and, closedown in SEA after that. These are countries and regions where supply capacities are physically located while shutdown in other part of the world has had limited impact to material supply to the Group. Supply disruption reached its peak in the month of March, nevertheless, given better than expected open-up took place in China and prolonged business closedown in major consumer markets in the world, pressure to supply in demand and supply balance has gradually shifted from supply to demand starting in April. Visibility to recovery and near term contingency have continued to improve in light of supply of certain commodities is still under constraint due to extended closedown in the regions. If ever and when COVID-19 pandemic can be kept under control, and, if there will be a second wave outbreak in countries and regions where pandemic had eased off are the biggest risk to our business. The Group and its supply partners will make best use of the knowledge picked up from the past months in preparing the Group for many unknowns and challenges that may come along during the COVID-19 pandemic period.

For details, please refer to the "The Group's Value Chain" section of the Company's separate 2019 environmental, social and governance report as issued and published on 16 April 2020.

In response to the potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has its diversified customer and supplier base, and has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. In order to deal with future inflation risk and minimise the impact on operations, the Group pays close attention to market price trends and maintains good interaction with customers and suppliers with flexible procurement and sales strategies. For details, please refer to the "Accountability and Audit" section of the Company's 2019 corporate governance report, which forms part of the Company's 2019 annual report as issued and published on 16 April 2020.

Employees are valuable assets to the Group. Therefore, the long-term strategy of the Group is to cultivate employees internally and to recruit outside professionals. Product development and manufacture are both complicated process and require professional and experts. Therefore, the Group pays attention to keep enhancing quality and quantity of staff force in order to secure its leadership and competency. The Group has been working diligently in different countries to attract and retain talents. As to talent development, the Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified and brilliant employees by offering more equal employment opportunities, competitive compensation and benefits, more favourable working environment, broader customer reach, bigger scale in resources, training and job rotation and enrichment and diversification, coupled with better career prospect across various products and programs and business lines. The Group places great emphasis on career planning and talent development for employees in different countries by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency and technical development to enhance employees' capabilities, while external training programs include hands-on courses and workshops and seminars or conferences

organised by external parties that provide excellent training and professional development opportunities for employees that bring theory and practice together to improve the competency of the Group. The Group prides itself on providing a safe, effective and congenial working environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been arranged and implemented to ensure a healthy and safe working environment. The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, training and development, knowledge building, motivations, rewards and retention, as well as localisation. The Group complies with relevant labour laws and regulations to protect employees' rights and interests. In order to communicate effectively with staff, the Group provides channels like meetings, email, or mail box for employees to reflect their thoughts. Currently, the communication between the Group and employees is well conducted.

To protect the well-being of employees and staff and customers and suppliers, the Group has spared a lot of resources and introduced SOPs (Standard Operating Procedures) and recommended guidance on behaviours like washing hands, the cleaning of surfaces, and social distancing to employees. As the COVID-19 situation has evolved in various countries where the Group's sites are located, the Group imposed strict measures to ensure employees stay healthy and prevent the spread of virus during the COVID-19 pandemic, including checking employees' body temperature daily, organising work in a way to allow for social distance, and improving exhaust ventilation to provide more clean make-up air to rooms, etc. Also, employees must wear face masks when they report to work. To reduce potential transmission of the virus, employees are clustered into different groups and eat/work in shifts. The Group has constructed dividers at canteen tables to prevent employees from talking to each other while eating. QR codes have been placed on cafeteria seats and meeting rooms as well, which employees are required to scan so the Company knows who sat where. The Group also uses Company APP for providing employees with up-to-date reliable information on the situation and prevention guideline of COVID-19. To protect the well-being of employees, relaxed attendance or leave policies allow employees to stay home if they have any related symptoms at higher risk of being infected or are quarantined.

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

As at 30 June 2020, the Group had a total of 71,654 (31 December 2019: 85,729) employees. Total staff costs incurred during the current period amounted to US$285 million (US$296 million for the first half of 2019 and US$235 million for the second half of 2019), and the year-on-year decrease was mainly due to the optimisation and rightsizing of staff force according to business needs.

The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. The Company has adopted both a share scheme and a share option scheme, and the share option scheme complies with the requirements of Chapter 17 of the Listing Rules. The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Company's performance, their duties and responsibilities with the Company, their contributions to the Company and the prevailing market practices as well as the recommendations of the Company's remuneration committee. For details, please refer to the "Human Capital — The Group's Greatest Asset" section of the Company's separate 2019 environmental, social and governance report as issued and published on 16 April 2020.

**Review of Results and Operations**

***Financial Performance***

The financial KPIs (Key Performance Indicators) include the above-mentioned year-on-year changes in sales, gross margins, net margin and return on equity. For peer analysis, as peers may have different business strategies, business models (like outsourcing or insourcing) and life cycle, client mix, revenue and product mix (casing versus system assembly and other non-handset businesses), business segments, pricing strategy and policy, geographical footprint, competitive edges, cost structure, it may be difficult to make direct comparisons at consolidated group account level as some peers may have business segments other than mobile phone business.

The Group recognised a consolidated revenue of US$3,668 million, representing a decrease of US$2,721 million or 42.6% when compared to US$6,389 million for the same period last year. Net loss for the current period was US$101.3 million, when compared to a net loss of US$83.8 million for the same period last year. The Group's net loss is primarily attributable to various factors, including the outbreak of COVID-19 in January 2020, the Group has extended the Chinese New Year Holiday and temporarily closed its factories in China in February, and in India in March 2020. COVID-19 pandemic which has adversely impacted on not only global supply chains but also consumer demand and has contributed to a slowdown in the global economy generally, in part as a result of various lockdowns and restrictions. Those challenging conditions above have further increased surplus production capacity and competition in the handset market and price and margin erosion pressure on the Group and those unfavorable factors affected the Group's margin performance and asset utilisation and collectibles and hence overall performance and YTD June 2020 gross loss margins was 0.07% (compared with a profit of around 0.68% for YTD June 2019) and the Group's revenue dropped and resulting in reduced contribution margin to cover fixed manufacturing overheads. The challenging conditions that (1) the Group has faced since late 2017 have continued into 2020 and further aggravated the already-difficult operational environment that the Group faces

and downward pressure on demand currently expected to continue into the remainder of 2020; (2) continued pressure on the Group's gross margins generally. The global economy is likely to suffer severely, leading to lower demand for mobile phones even after the massive disruption subsides.

In the aftermath of the current situation, it is expected the biggest detrimental impact on sales will come from weak demand and margin erosion pressure is the destiny. Even if OEMs are to produce with a smaller workforce, it will be a difficult one because their plants are configured for a certain capacity of operations. Therefore, expected drop in demand is a blow to handset makers as there are excess capacities. 2020 was supposed to be a strong year for the industry, as innovations like 5G and foldable screens got people shopping again. Instead, financial struggles and worries about COVID-19 will limit the number of devices companies can make and how many phones people will actually buy. Even once the worst of the pandemic is behind the U.S. and other markets, the global economy will likely continue to struggle.

Gross profit and gross margins of a manufacturing business are common financial KPIs measuring how effectively the company turns its revenue into profit and reflects how much of its sales a company retains after paying the up-front costs of producing the goods or services it sells and are essential to understanding the overall financial health of a company. A higher percentage of gross profit means a stronger ability to control cost of sales, which include control of variable costs such as BOM cost, direct labor costs, variable manufacturing costs, overheads and yields, and efficiency which can improve the contribution margin to cover fixed overheads. The more profitable the business is, the more profit is available to cover operating expenses and ultimately to pass on to the shareholders. Within a given company, gross margin changes over time can provide useful insight into internal improvements in productivity.

Due to the lockdown in the China in the first quarter and India in the second quarter, the Group had to spend the additional and unexpected cost in the resumption of production. Gross loss for the current period was US$2.7 million, represented an increase of US$46.3 million gross loss from that for the same period last year. Gross margins for the current period was a loss of 0.07% and was worsen than the profit of 0.68% for the same period last year. Up to end of April, our India sites are still closed as there is a national wide lockdown in India till 4 May 2020. On 1 May 2020, India announced to extend the lockdown by 14 days. Even after 4 May 2020, India operations cannot be resumed immediately as there are governmental controls and staff coming back has undergo self-quarantine. On 31 May 2020, India government announced a further extension but much more easing will happen. But there will be restrictions which will affect the sales and which could be a problem for offline sales. With that, it is still expected that gross margin will keep under huge pressure since the pandemic give rise to the uncertainty in the future.

For Vietnam factory, the situation is better as Vietnam government succeeded to contain the spread of COVID-19 and Hanoi site management implemented tight measures to prevent spreading of the virus within the factory.

Thanks to the Group's strategy of continuous development and penetration of the Chinese and international brand customers and efforts to expand production capacity in India and Vietnam and implementation and maintenance of Nokia-branded feature phones as key supplier of feature phones to HMD and other businesses, the Group succeeded to increase system

assembly sales of low margin in 2019 and this will continue in 2020 in light of intensifying uncertainties of global economy and COVID-19 outbreak. There will also be continuous pressure on and challenges to casing business due to keen competition as a result of surplus capacity in the market and low entry barrier. Through business development effort in 2019, as there was growing demand of casing business from one of the Group's Chinese customers in China in 2019 and our Shenzhen plant cannot fulfill all demands and we expanded our Langfang casing capacity in 2019. But due to blacklisting issue, a lot of uncertainties still prevail. At the same time, there was demand from the other customer to manufacture casings locally in India and the Group's India casing business has started operation in November 2019. As always, the Group will continue to provide system assembly of consumer electronic products such as eReaders and tablets and voice interaction products to its customer. Moreover, FIH has also been engaged in 5G, IoV (Internet of Vehicle) and AI for building up the Internet and the mobile ecosystem.

As a whole, there is a continuous need to drive for better internal operational efficiency of manufacturing processes, testing processes, inventory and supply chain management, quality management, capital expenditure control, improve yields to lower manufacturing costs, conduct the benchmarking of cost leaders' processes and costs of external EMS (Electronic Manufacturing Services) to improve the competitiveness of the Group's manufacturing costs, yield and efficiency. In conclusion, good vendor management, supply chain management, manufacturing management, business control management, quality management, order fulfillment and inventory management are critical to ensure cost efficient operations.

***Peers***

Apart from the Nokia-branded phone manufacturing business, the Group's casing and system assembly business also continued to face many tremendous challenges. Since the third quarter of 2019, many mechanical vendors had chosen to diversify their product mix beyond mobile phones to improve their gross margin rate in the declined mobile phone market, which led to an easing on the price competition in this industry. Although the competition pressure eased over the course of 2019, it has increased since January 2020 due to the COVID-19 pandemic. While in the past two years, there had been a change in the Group's sales and product mix and there had been some decline in our casing business (partly due to the change in product mix from high-end and mid-range products to low-end ones) whilst weight of system assembly business of comparatively low gross margins kept increasing in 2019 but is expected to decrease in 2020. For our peers of casing business, they are companies listed in the PRC, Hong Kong or Taiwan and have been the vendors of our customers for a long time with well-established business relationships with the Group's customers. They also have customers, which are not customers of the Group. They have strong cost competitiveness and extremely agile to follow up the latest technology and tendency, such as 3D glass, Glastic and ceramic casing, even utilising the idle automation equipment to produce healthcare and medical products which have made them become increasingly strong and competitive in all areas at a fast pace and their margins are in general better than the Group. For these 5 peers, their core and other businesses and 2020 first quarter performance are listed as follows:

i. Peer 1 is a Hong Kong listed company whose core businesses are acoustics and haptics optical applications. Its gross margin rate decreased 7% became 23% and net profit plunged 88% year-on-year in the first quarter of 2020 due to seasonal factors and the outbreak impact of COVID-19 significantly affected its operation and production

utilisation. According to its first quarter 2020 result announcement, the company spent almost RMB10 million for carrying out nucleic acid tests and health checks on all employees and maintained close communications with suppliers and customers to overcome all challenges, and successfully achieved the full operation and production resumption by mid-March. Regarding its 2020 full year performance, although the precision mechanics margin was affected by the COVID-19 outbreak due to the adverse effect on the manufacturing utilisation and product shipment, the company expects the industry demand for haptics upgrade remains strong and prepared for shipment of x-axis haptic motors to Android models to increase multifold to the range of 45–50 million units in 2020. For 5G business, unit price to 5G smartphones has a significant premium compared with 4G smartphones as there are higher requirements for high-precision metal casing and heat dissipation. The company believes to have more than 50% of business related to 5G smartphone projects. According to the estimation from CINDA INTERNATIONAL published on 18 May 2020, the company's revenue is expected to increase 4% merely year-on-year with the same net margin rate as 2019;

ii. Peer 2 is a Hong Kong listed company whose business includes handset component making (including casing, mould/keypads and battery chargers) and is an OEM/ODM service provider for handset EMS and a provider for a wide range of metal, glass, and ceramic designs. The company's net profit for 2019 decreased 27% year-on-year due to the decreased shipment of its biggest customer and the increased R&D expense. Its revenue decreased 18% year-on-year in the first quarter of 2020 due to COVID-19 epidemic caused the delay of work resumption and the decline of assembly business according to the report issued by CITIC SECURITIES on 30 April 2020. In February 2020, the company seized the opportunity and added a new business line to produce surgical masks with the excess capacity which boost its overall gross profit margin;

iii. Peer 3 is a PRC (the People's Republic of China) listed company whose shares are listed in the Shenzhen Stock Exchange and its core business also includes IMT casings and glass casings, and water-proof components. In 2019, its net profit after deduction of non-recurring profit or loss is negative due to the impairment of inventory and goodwill. In the first quarter of 2020, its revenue increased less than 1% year-on-year due to the sudden increased demand of tablets. However, the company's precision products for mobile phones have declined due to COVID-19 pandemic. In order to diversify the risks of the single market and to increase the proportion of high margin products, the company continues to expand its product categories to include products such as USB Type-C connector, smart wearable devices, touch pen and high voltage connector system and model for new energy vehicle;

iv. Peer 4 is a Hong Kong listed company whose business includes mobile communication terminal, digital and optoelectronic products such as precision mobile phone metal appearance, mobile phone metal frame, precision shielding, and micro precision connectors respectively. In 2019, its gross profit margin decreased 2% year-on-year due to the decrease in unit sale price of the tri-proof and high-precision components, and its net profit fell 26% year-on-year due to fierce market competition and the lack of major upgrade for US client's smartphone which was unveiled in third quarter of 2019. In the first quarter of 2020, its revenue decreased 2% though the company responded swiftly during the epidemic period and strived to restore normal operation in its major production bases, and the handset casings (especially the Glastic casing — 3D glass like plastic) and

high-precision components business is now accounted for 78% of the total revenue which is higher than previous year. According to its first quarter announcement published on 22 April 2020, as the market share of medium-priced 5G handset is expected to be gradually increased, the sales of the company's Glastic casings will be benefited. However, the company announced first half of 2020 profit warning on 10 July 2020 stating its net profit to decline 85–95% YOY, mainly due to GPM pressure caused by intense competition and COVID-19 epidemic, and net exchange loss in first half of 2020;

v. Peer 5 is a Taiwan listed company, which specialises in light metal casing and its products include computers, communication and other consumer electronics. In the first quarter of 2020, its revenue decreased 22% year-on-year due to seasonal factors and impacts from the global outbreak of COVID-19 on the supply chain, logistics and labors. Its net loss increased 96% year-on-year duo to extra costs to the prevention of COVID-19 and development costs for multiple new projects according to its 2020 quarterly management report issued on 6 May 2020.

Since 2018, many smart phone vendors proceeded to adopt the metal mid-frame with glass/"Glastic" back cover for better Wifi/LTE signal performance and wireless charging, which lowered the utilisation rate of CNC (Computer Numerical Control) machines, so the smart phone centric mechanical vendors were forced to adjust their product mix. However, as a skeleton of 5G smart phone, the structure, precision and processing method on metal mid-frame is far more complex than traditional metal cases, it need processing on both sides and insert a metal plate inside. Hence, it cost more CNC processing time than traditional metal cases which led to a higher average unit price. Therefore, the Group will also put effort to diversify its product mix, and devoted itself to improving existing technologies and manufacturing, delivering innovation on both processes and materials, enhancing the core competence and capability of mechanical engineering (which is critical to the successful running of casing business), quality and efficient customer responsiveness and speed, shorter mold manufacturing cycle time and cost effectiveness and efficiency of casing business and optimising production costs like direct labor costs and yields and benchmark costs of our own manufactured moldings and tooling against market prices. China domestic labor costs have risen sharply, yet the efficiency of assembly line workers has not increased correspondingly and the cost advantage of China is no longer comparable with other countries in Southeast Asia like Vietnam and India in the medium term.

System assembly business of OEM business model, which is the major business model of the Group, has a low barrier to entry and low gross margins. In terms of competition analysis, the Group only earns processing fees and manufacturing fees while yield, efficiency and quality differentiation are of critical importance to reducing customers' price sensitivity and developing long-term business relationship. But the amount working capital employed to finance system assembly business can be high. The Group's Indian operation is strong due to its ownership of a very large system assembly capacity and its vertical integration from PCBA to complete handset assembly. Due to the US-China trade war, geopolitics and protectionism, some customers in this industry are seeking manufacturing services out of China while there are only a few peers with existing overseas capacities or overseas capacities that are just being established, so the Group can utilise its existing capacities in India, Vietnam and other countries to secure more orders. Peers of OEM business include Taiwan, China and U.S. companies. In relation to a Taiwan peer who is a Taiwan listed company, which offers a wide range of electronics products in computing, it also engages in the development, design and

manufacturing of peripherals and components of the above-mentioned products. Referring to its published first quarter results, its revenue decreased 5.3% year-on-year and gross margin rate declined 7.6% year-on-year due to less working days, product seasonality and manufacturing interruption resulted from the outbreak of COVID-19. However, its net profit increased 93% due to the increase of non-operating income. Due to the U.S.-China trade war, this Taiwan peer has officially opened its new factory in Indonesia in the middle of 2019, and moved part of capacity back to Taiwan to avoid additional tariffs. However, the company now expects non-PC product performance in the first half of 2020 to be flat from last year which is completely different from the its optimistic forecast released at the end of March 2020. Another peer is a PRC listed company, which started with OEM business and has become an OEM/ODM company and most recently, it has completed the M&A of a well-established semiconductor company. Its revenue largely increased and profitability also improved in the first quarter of 2020 due to the shipments of international first-tier brand customers continued to grow in the ODM business and the semiconductor company has been included in the consolidated statements. The remaining peer is a reputable U.S. listed company which is an Electronics Manufacturing Services (EMS) provider focusing on delivering complete design, engineering and manufacturing services to aerospace and defense, automotive, computing, consumer, industrial, infrastructure, medical, clean technology and mobile OEMs. Its net sales decreased by 12% year-on-year and posted a loss in the first quarter of 2020 primarily due to negative impact by the ongoing global COVID-19 pandemic which caused supply chain and demand disruptions. The above comparison with the 3 peers showed that the system assembly market still fluctuates and is highly competitive and the margins of system assembly business/industry is narrow due to the global declined smart phone shipment caused by COVID-19.

Other income, gains and losses for the current period was US$101.8 million, representing a decrease of US$5.3 million from that for the same period last year. The Group has experienced a foreign exchange gain of US$7.1 million in the first half of 2020, compared with the Group foreign exchange loss of US$7.8 million in the same period of 2019 due to its holding of US$ assets. As the world economy still suffers from COVID-19 crisis and financial market becomes extremely volatile, the Group will keep monitoring the currency market and mitigate currency exchange risks. Fair value gain of short term investments at fair value through profit or loss decreased by US$4.6 million to US$1.6 million for the current period (YTD June 2019 fair value gain was US$6.2 million). Service income also decreased by US$14.6 million and service income for the current period is US$36.7 million (YTD June 2019: US$51.3 million) and was mainly due to decrease in the product development service provided to customers.

Regarding operating expenses, for the current period was US$182 million, compared to US$210 million for the same period last year. For selling expenses and R&D expenses, with the effort of cost savings, there was a year-on-year decrease by US$0.3 million and US$4.4 million respectively. For general and administrative ("G&A") expenses, there was a year-on-year decrease of US$22.3 million and the decrease was mainly attained by reduction in payroll costs and the optimisation and rightsizing of staff force and stringent overheads and costs control.

Net profit and net profit margin are the financial KPIs measuring earnings/losses resulting from subtracting operating expenses and other gains and losses (such as equity investments fair value change) and tax and interest costs from gross profit earned and shows the residual of all revenues and gains over all expenses and losses for the period and result in net change in shareholders' equity that results from a company's operations. It measures the ability to control operating expenses and optimise tax and interest costs and minimise other kinds of non-operating gains and losses (such as equity investments fair value change). In light of the factors mentioned above, loss attributable to owners of the Company for the current period was US$100.5 million, as compared to loss attributable to the owners of the Company of US$84.1 million for the corresponding period last year. The net loss margin for the current period was 2.74%, as compared to the net loss margin of 1.32% for the same period last year. The loss attributable to the owners of the Company increased by US$16.4 million for the first half of 2020, compared with loss attributable to the owners of the Company of US$84.1 million for the same period of 2019.

ROE (Return on Equity) during the current period, representing the amount of net income returned as a percentage of shareholders' equity, which measures a company's profitability by revealing how successfully a company utilises the resources provided by its equity investors and the company's accumulated profits in generating income was 5.33% negative, when compared with the ROE for the same period last year of 4.05% negative.

Income tax expense during the current period was US$14 million, when compared to income tax expense of US$7 million for the same period last year. The increase in income tax expense was mainly due to income tax incurred in certain profitable entities during the current period such as Mexico and India entities. Mexico entity is profitable during the current period mainly was contributed by the foreign exchange gain due to its holding of US$ assets, while India entity is profitable during the current period mainly attained by the optimisation and rightsizing of stringent overheads and costs control. The Group has modified the currency settlement mechanism business model with its customers in 2019 for India business and reduced significant foreign exchange loss while compared to the same period of last year.

During the period ended 30 June 2019 and 2020, there were no impairment recognised for property, plant and equipment. After evaluating the portfolio investments, the Group had disposed some of its investments in 2019 to realise the investment gain or minimise potential loss, and the Group will keep monitoring its remaining investment and seek exit opportunities for certain investment in 2020 to maximise the Group's profit.

Basic loss per share from continuing operations for the current period was US1.2 cents.

***Dividends***

The form, frequency and amount of dividends to be declared each year and dividend pay-out ratio will be dependent upon the Group's financial performance and cash flow generated from operations, projected working capital and capital expenditure and capital requirements, cash position and other relevant factors as the Board may deem appropriate.

On 7 August 2020, the Board resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2020.

***Sales***

For 2020, the Group recognised a consolidated revenue of US$3,668 million, representing a decrease of US$2,721 million or 42.6%, when compared to US$6,389 million for the same period last year. The Group will continue to provide system assembly service of consumer electronic products such as e-Readers, tablets and voice interaction products to an international brand and strive to maintain a healthy customer mix and sales mix. The Group started its business serving international brands by manufacturing feature phones with the launch of smart phones and the subsequent popularisation which has driven smart phone outsourcing, the Group has benefited from the trend. The bad news for the global smartphone market is that global shipments have faced the third year decline since 2016 due to saturation in certain markets. However, with grown demand in India and faster than expected adoption of 5G smart phones, the market was originally expecting a 1.45% growth in shipment in the late 2019. Yet, the COVID-19 outbreak demolished not only the mobile phone supply but also the consumer demand. Instead of slight growth in shipment, the latest IDC forecast shows a 12.57% decline in 2020 smart phone shipment with a possible rebound takes place in 2021 depending on the recovery from the COVID-19.

***P&L (Profit and Loss)***

With diffusion of innovation and technology, the smart phone industry has been already commoditised. Highly homogenous products have increased the competition in the market as it became more fragmented and as the modular structure of the industry lowered the barriers for new entrants to enter the market and offer products with high specifications for an affordable price to consumers. The smart phone industry is characterised by modularity similar to the computer industry. The significance of modular designs has been linked to the rapid rate of innovation in the industry and contract manufacturing along with modularity has given rise to the competition in the industry as new players enter the business with the ability to produce at low cost but with a high efficiency. As mentioned in the above sections of "Financial Performance" and "Sales", for current period of 2020, the year-on-year decrease of sales was mainly attributable to the corresponding change of the collaboration model with HMD and the conservative orders from the Group's customers due to COVID-19 countermeasures. Furthermore, the changes in product mix and crowded competition in the casing business (resulting from surplus capacity in the casing sector) and weak system assembly business margins and increasingly high manufacturing costs, combined with the impact of US-Sino trade war and COVID-19, have induced heavy pricing pressure on the Group and hence inevitably imposed pressure on gross margins.

In general, the Group has strived to improve efficiency and maintain a good and stable yield by enhancing production automation, asset utilisation and capacity optimisation, quality assurance and quality control, and tighter control on manufacturing overheads and capital expenditure. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to diminish the impact of rising labor cost and enhance efficiency. The Group's dedicated and professional procurement team is leveraged to sourcing materials with competitive prices. Furthermore, there has been continuous strong support from the Hon Hai Group to offer in scale, solid component support and stable supply of key components and a vertically integrated supply chain that allows for production synergies. The Group can leverage on the Hon Hai Group's resources, giving the Group more flexibility in outsourcing capacity.

***Geographical segment (please refer to note 4 of "Revenue and Segment Information")***

- *Asia segment:*

  Asia segment was the Group's core performance contributor in terms of sales turnover and segment profit and despite of COVID-19, this will continue in 2020. The revenue of Asia segment in the current period was US$3,351 million, representing a decrease of 37% from that for the same period last year (YTD June 2019: US$5,347 million). Due to the outbreak of COVID-19 in January 2020 and subsequent shutdowns and lockdowns and travel restrictions in Asian Countries like PRC, India and Africa, sales to Asian segment were hit badly. Despite the supply chain has fully recovered in PRC and under recovery in India, the consumer demand has been profoundly damaged. Our major operation sites are located in PRC, India and Vietnam and the Group has extended the Chinese New Year Holiday and temporary closed its factories in China in February, and in India in March, and these have affected the supply to different geographical segments. The Group's Asia segment business are impacted by COVID-19 which ultimately caused a negative impact on the Group's Asia segment sales (like feature phones manufactured in India which are sold domestically), contribution margin and asset utilisation. In the current period, Asia segment's recorded earnings were US$12 million which were lower than the recorded earnings of US$59 million for the same period last year. Segment profit represents the gross profit (loss) earned by each segment and the service income (included in other income) after deducting all selling expenses. The margin compression risk will continue as Asia segment sales growth is driven by system assembly business which has a lower gross margin. Due to crowded competition and excess capacity in casing industry, gross margins of casing business will continue to face pressure this year. Amid fierce competition, the China smart phone market continues to be the focus of the Group. These challenging conditions that the Group has faced since late 2017 have continued into 2020 and further aggravated the already-difficult operational environment that the Group operates and faces and downward pressure on demand currently expected to continue into the remainder of 2020 in all geographical segments. The global economy is likely to suffer severely, leading to lower demand for mobile phones even after the massive disruption subsides.

  The strategy of the Group is to shift the gravity of operations and devote resources to Asia segment, including China, India and Vietnam, following the downsizing of European sites so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment and develop additional businesses and customers and serve existing customers in a well manner. In particular, a lot of customers with phones shipping to the U.S. have been moving some of their PRC operations out of China and have asked the Group to manufacture phones in other Asian countries like Vietnam.

  The Group believes that outside Asia Pacific, the biggest regions for growth will be Africa, Middle East, and Latin America. All these three regions have relatively low penetration rates and with large upsides. In anticipation of the good opportunities mentioned above, the Group has already set up and maintained handset assembly factories in India and Vietnam for years and has helped certain Chinese brand customers to develop business and grasp larger market shares in Asia and overseas markets outside of China in the past couple of years. With the lingering of trade war, customers are now flocking to Asian countries like Vietnam and the Group has kept reviewing its global capacities to

optimise resources and capacity in emerging markets, including India and Vietnam. The Group continues to further align its manufacturing capacities with the geographic production demands of customers and expand its capacity and capability there. India may get a boost in a post-lockdown scenario. Sales of the Group's Indian operations in the current period were about 21% of the total sales of the Group due to the continuous growth of the business of a Chinese brand customer in India. The Group's factory operation in India is one of the largest contract manufacturers in India and the Group will continue to optimise its infrastructure and capacity in anticipation of additional Chinese customers in India. To this effect, the Group had injected additional capital of around US$119 million in 2019 into its Indian operation.

- *Europe segment:*

  The recorded revenue of Europe segment in the current period was US$212 million when compared with the recorded revenue of US$557 million for the same period last year and the revenue of Europe segment decreased in the current period. Apart from the effect of the outbreak of COVID-19, the decrease of revenue is due to discontinuance of Nokia-branded smart phone business. The recorded earning of this segment in the current period was US$6 million, when compared with the recorded earning of US$7 million for the same period last year and there was improvement as less loss making Nokia-branded smart phones were sold.

  The Group has taken measures with the aim of achieving the objective to reduce the gross loss margin of Nokia-branded smart phone manufacturing in the second half of 2019 and the Group's gross margin (excluding the impact to gross margin triggered by the discontinuance of phone distribution business) has improved gradually.

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

- *America segment:*

  For the America segment, core businesses include of sales of phones to a U.S. based Internet customer and provision of services including reverse logistics, repair and refurbishment of smart phone for OEMs and carriers and sales of phones to small US customers by the Group's entities located in the U.S. and Mexico. The recorded revenue in the current period was US$105 million when compared with the recorded revenue of US$486 million for the same period last year and the year-on-year decrease came from the decrease of sales to a U.S. based Internet customer. Due to the nationwide shut down starting from mid of March in the U.S., all smart phone retail stores and retail service channels have been closed, the return service activities slowed down tremendously. New product introduction schedule has been pushing out due to no traveling allowed and no material available. All Mexican business are from U.S. market. Due to nationwide shutdown in U.S. from mid of March, both repair business and manufacturing business got impact. Both sell through channels and reverse logistic activities slowed down due to COVID-19. Even the COVID-19 cases in both Texas and Mexico are still flat in June and not showing the evidence of inflection point yet, both U.S. and Mexico are preparing for the "New Normal" to cope with the potential slow recovery starting from June. The

recorded earnings for the current period were US$8 million when compared with the recorded earnings of US$21 million for the same period last year. Due to the increase of sales to the U.S. based Internet company and the change to Group's Nokia-branded smart phone business strategy (and some more phones will be sold to the U.S.) in 2019, the performance of the America segment has a positive impact on the Group's overall performance in 2019. But the situation has changed dramatically in first half of 2020, the Group will closely monitor the future development of this segment.

***Investments***

On the basis that the value of each of the investments mentioned below as of 30 June 2020 is less than 5% of the Group's total assets as at 30 June 2020, the Company does not consider any such investment as a significant investment for the purposes of the Listing Rules.

The Group has continued to enhance its EMS businesses and explore new opportunities of 5G related application and V2X (Vehicle-to-Everything) to reinforce the Group's dominant position in the mobile handset manufacturing industry and build up the Internet and the mobile ecosystem through investments and M&A (mergers and acquisitions) opportunities and activities.

*Investments in Business relating to Nokia-branded Products*

On 18 May 2016, the Group entered into an agreement with Microsoft (as seller) and HMD (as other purchaser) to acquire certain assets of the Nokia-branded feature phone business then operated by Microsoft Corporation, comprising a manufacturing facility in Vietnam and certain other assets that were utilised in the conduct of such feature phone business at a total consideration of US$350 million (US$20 million of which being payable by HMD). This transaction resulted to a goodwill of US$79.4 million. Due to the unsatisfactory performance in 2018, and based on the valuation carried out by an independent professional valuer, the Group has fully impaired the goodwill of US$79.4 million in its financial statements of 2018.

The challenging market environment in 2019, and HMD transition to from a single vendor model to multi-ODM set-up, had an adverse impact on HMD's sales and profitability in the first half of 2019. In second quarter of 2019, HMD switched to a multi-ODM set-up. This supply chain expansion from FIH as the only supplier into multi-ODM model was motivated by improving purchase price competitiveness, reduction in component liabilities, faster time to market and stronger ramp-up capability to capture early months demand with higher probability. New supply chain ramp up has been a success for HMD and results are already visible in business performance. At the end of 2019, almost all of HMD's smart phone portfolio is manufactured by the new ODMs.

Feature phone business continued to be managed with a focus on profitability, to maintain portfolio competitiveness, with FIH as the sole supplier.

The multi-ODM model, coupled with a more focused approach on selected markets and hence profitability, helped HMD to turn operating margin (EBIT) positive for the first time in the fourth quarter of 2019. Feature phone profitability was also significantly improved without compromising the market position of Nokia brand. HMD is committed to continuously drive

innovation across its portfolio, including the feature phone segment, to maintain industry leadership. In smart phones, the focus remains on offering signature experiences that consumers have come to expect from a Nokia phone — data security, durability, quality, design and long battery life.

Looking forward, HMD is optimistic that consumers look for Android phones that offer high level of security, software updates and upgrades. Mobile phone market has moved to a fast-paced and quick transition, making a new phone feel old in a very short time. At the same time products are more differentiated on software than hardware. New innovations in the industry will be more software led than before. HMD's promise of always up-to-date Android is unique. It enables HMD to define products where Android services are flawlessly integrated into hardware experience. Good example of that is dedicated hardware key for Google Assistant in 2019 portfolio — aimed at offering a unique user experience to Nokia phone fans.

The promise of pure, secure and up-to-date Android has resonated very well with the enterprise customers, where typically Android adoption has been restricted unless separate expensive security solutions were used. Nokia smart phones offer a secure solution, right out of the box without any needs for additional investments from the enterprise customers. HMD has a broad portfolio of Android Enterprise Recommended smart phones for this segment. HMD is seeing a similar trend emerging among consumers who care about their privacy and in general want to own products which offer a secure software experience — one that keeps getting better through regular updates. During 2019, HMD won a number of significant contracts with large enterprise customers.

In the feature phone segment, HMD is striving to add new functionalities to offer a 'smarter' experience to the consumers. At the same time, HMD is helping operators transfer subscribers from 2G to 4G networks and offer them a more connected experience at an affordable price.

HMD started Series A2 funding round during the first half of 2019. This is the third funding round of HMD. Seeding round was closed in start-up phase, and Series A1 was closed in the second quarter of 2018. Main purpose of Series A2 round is to collect funding to deliver growth plan, strengthen the balance sheet and expand the investor base to include strategic industry partners. HMD hopes to close the Series A2 funding round in the third quarter of 2020.

The Group previously invested US$64.5 million in HMD, which represented about 10.10%(calculated on as-converted and fully-diluted basis) of the total issued shares of HMD as at 30 June 2020.

With reference to the valuation carried out by independent professional valuers, the management has assessed the fair value of the investment in HMD as at 30 June 2020. The Group took corresponding adjustment to the fair value change for the Group's direct and indirect investment in HMD through other comprehensive income ("OCI"). The investment team will monitor the progress of the fund raising and its cash position and business performance and impact of COVID-19 to its business.

*Other Investments*

In September 2015, the Group invested about US$200 million in Snapdeal Private Limited (formerly known as Jasper Infotech Private Limited), which runs an online marketplace and shopping site known as "snapdeal.com" in India. In recent years, the fierce competition in India's e-commerce market has led to a negative impact on the Snapdeal's performance. Based on its financial position, the Group reduced the investment to zero in 2017. In the first half of 2020, although its net revenues decreased dramatically, its loss has been improved due to the continuous efforts from its management team and the company even turned profitable at a company level in June, 2020. Also, the company plans to invest in artificial intelligence and machine learning, and enrich the assortment of regional brands on the platform to enhance its customer shopping experience. The Group has continued to monitor the progress of Snapdeal business development.

In August 2016, the Group invested approximately US$50 million in Hike Global Pte. Ltd. ("Hike"), an Indian-based social media application developer and accounted for as FVTOCI. Hike built up an instant peer-to-peer messaging application with localised lifestyle functions. In the second half of 2019. Hike has also launched HikeMoji which is available in 7 regional languages and allows users to choose from 1000+ components integrating hyper local clothing, hairstyles, accessories as well as access to 100+ exclusive Hike Moji stickers. Over two million and a half HikeMoji Avatars have been created within 2 months from the date of launch. Hike also invested in the first local real money casual gaming platform with 20+ games and a great revenue. Since March 2020, Hike offered support for COVID-19 tracking as well as news updates feature in its existing Natasha chatbot to increase user stickiness. According to the company, there has been an increase of 33% in daily activity time spent in its app, and users spend an average of over 44 minutes per day. In June, Hike launched a new social product called Hikeland the world's first mobile-first virtual world, a safe place for people to hang out online where great relationships can blossom around shared experience. Though Hike has tried to provide various functions and monetise its users and platform in the first half of 2020, it would still need more time to continually grow its users and revenue size to reach an economics of scale. Based on the performance in first half of 2020 and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in Hike as at 30 June 2020. There was no fair value change recognised in this investment during the current period.

The Group invested about US$5 million in Razer Inc. (the shares of which are listed and traded on the Stock Exchange with stock code: 1337, "Razer"), a leading global lifestyle brand for gamers, with dual headquarters in Irvine, California and Singapore. Razer is one of the most recognised brands in the global gaming and e-sports communities. Razer has designed and built the world's largest gamer-focused ecosystem of hardware, software and services. As part of an expansion of its ecosystem, Razer announced that "Razer Fintech" has submitted its application for a Digital Full Bank License on January 2020. According to the Monetary Authority of Singapore, the award of the digital banking licenses is expected to be announced in the second half of 2020. Razer's fundamentals are very robust with no debt and cash of over US$500 million as of December 31, 2019. With respect to the first half of 2020, its core gaming ecosystem saw strong growth across all business segments of hardware, software and services, as a result of Razer's dominant market position, user base expansion, coupled with the "stay-at-home" situation in light of the COVID-19 pandemic. On the hardware front,

consumer demand remains strong. Increased gaming and esports activities have led to significant surge in user activity on its software platform and in Razer Gold (the unified Virtual credits for gamers worldwide). Meanwhile, increased ecommerce activity boosted the growth of Razer Fintech B2B payment processing business. As at 30 June 2020, the fair value amount of Razer is US$4.3 million and the Group holds about 0.26% of the total issued share of Razer. The Company has continued to monitor and evaluate the possible alternatives to maximise the benefits (financial, operational and otherwise) from the Group's investment in Razer.

The Group invested in CExchange, LLC ("CEx"), which engages in the business of consumer electronics trade-in and buy-back in the U.S. since 2014. In 2018, the loss of a significant customer and low sales volume impacted CEx's overall income, which resulted in a sustaining loss, therefore the Group had fully impaired this investment by the end of 2018. The Group finally decided to dispose of its interests in CEx in 2019. The Group then discussed with a couple of potential buyers, and after rounds of negotiations, the Group entered into an agreement to sell all 49% of the Group's membership interests of CEx to the relevant buyer in December 2019. Based on the agreement, the Group will receive all the payments from equity transfer by the end of 2020.

The Group invested US$1 million in CloudMinds Inc. ("CloudMinds"), an operator of cloud-based AI robots in China in 2015. During the first half of 2019, CloudMinds successfully closed series B financing, and filed with the U.S. SEC (Securities and Exchange Commission) to propose maximum aggregate IPO (Initial Public Offering) size US$500 million on 12 July 2019, and provided the updated financial results on 12 September 2019 in accordance with the SEC's listing rule. On 22 May 2020, the U.S. Department of Commerce, Bureau of Industry and Security (BIS), announced that it will add CloudMinds affiliated Cayman Island, Beijing and Hong Kong companies to the entity list. The company made official response on 23 May 2020 saying "We're disappointed to hear of the U.S. government's decision because it does not reflect CloudMinds products, technologies, intended applications, business development and social responsibility practices. CloudMinds will continue to comply with BIS regulation, and will continue to make every effort to provide customers with the world's leading intelligent cloud robot products and services." The company has tighten its expense in the first half of 2020 in order to get through COVID-19 crisis but will keep expanding its customers and products in the upcoming year. Based on the performance in the first half of 2020 and the forecast for the next three to five years and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in CloudMinds as at 30 June 2020. The Group took corresponding adjustment to the fair value change in this investment. As at 30 June 2020, the Group's investment represented 0.88% of CloudMinds on a fully-diluted basis.

The Group invested around US$2.5 million in Jiangsu Liangjin Electronic Commerce Share Co., Ltd ("Liangjin"), a distributor of mobile devices and accessories, which is quoted and traded on the PRC's National Equities Exchange and Quotations, also known as the "New Third Board", with stock code 834438. Due to the rapid market change, Liangjin's business model is eliminated by mainstream competitors, their current business is completely stagnant and exists tremendous uncertainty. According to the announcement published on 30 June 2020, its shares are suspended from trading since 6 May 2020 with the possibility to be

delisted as Liangjin failed to disclose its 2019 annual report. Considering Liangjin's performance and the liquidity of its shares, the Group took corresponding adjustment to the fair value change in this investment. As at 30 June 2020, the Group's investment represented 4.41% of Liangjin's total issued shares.

The Group invested around US$0.7 million in Augentix Inc. ("Augentix") by subscribing Augentix's convertible note in December 2019. Founded in 2014, Augentix is a fabless multimedia SoC (System on Chip) design company based in Taiwan. Its product offering features with efficient intelligent vision applications using proprietary algorithms and hardware accelerations. The first SoC series of Augentix has been adopted by leading brands and platforms in the fields of home IoT (Internet of Things), professional IP camera, and consumer surveillance products, and helped one of its customers won the 2020 CES Innovation Award. With its emerging new SoC platform available in 2020, Augentix is expected to provide broader AI applications in car dash camera, ADAS, and robots. Through this investment, the Group expects a deeper collaboration with Augentix to further develop in IoT and V2X industry.

The Group made a strategic investment of around US$1 million in Ossia Inc. ("Ossia") in June 2020. Ossia, the creators of Cota® Real Wireless Power,™ redefines wireless power by safely delivering targeted energy to multiple devices simultaneously at a distance. Ossia's Cota technology is a patented smart antenna technology that automatically keeps multiple devices charged without any user intervention and enables an efficient and truly wire-free, powered-up world that is always on and always connected. Ossia is a fabless technology licensing company. Ossia is headquartered in Bellevue, Washington. The Group will be a preferred partner and contract manufacturer for Ossia's customers wanting to build or integrate Cota wireless power into their devices, sensors, automotive applications and IoT products.

The Group also made certain investments in other companies designated as FVTOCI mainly in China, India and U.S. in the past few years. In China, the Group's investments mainly include a smart home company who provides smart door lock and other IoT products, a technology company who provides educational robots, and a company who provides medical devices for people with myopia. In India, the Group's investments mainly include a data-driven advertising technology company. In U.S., the Group's investments mainly include a digital photography company that has developed a multi-lens and multi-sensor camera designed for embedding in smart phones and mobile devices, and a high-end Android smart phone company led by a group of experienced experts in the mobile industry.

As at 30 June 2020, the fair value of the Group's equity investments designated as FVTOCI was US$96.6 million, which represented 1.74% of the Group's total assets.

*Other Investment-related Matters*

In such a dynamic and volatile equity investment market, the Group's investment team is invariably cautious, and therefore the team will continue to monitor the performance and financial position, cash flow, burn rate and fund-raising activities of investees, related macro-economic factors and competition landscape and technological changes and innovation, viability of business models as well as execution capabilities of the respective management teams of those investees and outlook of investees. In 2019, the Group had disposed of some

investments, and also impaired a few investments which had less than ideal performance. The investment team maintains a close relationship with the respective management teams of those investees, and conducts periodical in-house analyses. Based on the result of the analyses, the investment team will consider hedging the risk exposure should the need arise. The Group is not currently aware of any potential cause which would lead to any substantial loss arising from the change in the fair value of the Group's investments in certain listed companies in the first half of 2020. In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring and evaluating good investment potential opportunities that can add value to the Group and the Group's investment strategies will be adjusted to be more focused on 5G, IoV (Internet of Vehicle) and AI for building up the Internet and the mobile ecosystem, which includes but not limited to IoT smart devices, smart home products, IVI (In-Vehicle Infotainment) and telematics system, V2X (Vehicle-to-Everything) technologies, or others for synergies creation via establishing strategic partnerships with technology companies. Among the characteristics that the Group looks for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations and new business including IoV; favourable long-term growth prospects; and cultural fit with the Group. The Group has an experienced investment team and will continue to hire talents and has prioritised investments of comparatively low risks and with long-term growth prospect which may take years before the investment can be realised. As a whole, the Group will be cautious on expanding its investment portfolio to create synergies but at the same time to cope with the possible uncertain economic environment and volatility of the capital market throughout 2020.

There had been no material acquisitions and disposals of the Group's subsidiaries, associates and joint ventures for the current period.

***Compliance with Relevant Laws and Regulations***

During the current period, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the Group, examples of which include those relating to foreign investment, taxation, import and export, foreign exchange control and intellectual property in the principal jurisdictions in which the Group's operations and investments are situated, and (as the shares of the Company have been listed and traded on the Stock Exchange) applicable requirements under the Listing Rules and the SFO.

The Group has been operating multi-nationally (coupled with investments) in its principal operating segments, namely Asia, America and Europe. In particular, the Group's legal structures, investment structures, funding arrangements, business models, supply chain and general operations have been structured and optimised in a tax-efficient, cost-effective and robust manner, taking into account (among other things) commercial and financial perspectives and applicable legal/regulatory requirements in the relevant jurisdictions. The Group's major operating subsidiaries fall under different tax regimes in the PRC, Taiwan, India, Vietnam, Finland, Mexico and the U.S., where different tax laws and regulations as well as specific concessionary incentives apply.

During the current period, as advised by the relevant local legal advisers and tax advisers, the newly-promulgated local laws and regulations applicable to the Group's operations in the PRC, India and Vietnam (being the jurisdictions which are considered, in terms of the scale of

businesses and operations as well as the number of employees, factory units and office units, to reflect the comparatively significant impacts of the Group's overall business unit/group operations) that have a significant impact on the Group are highlighted and summarised as follows:

- *PRC*

  To cushion the economic hit caused by the COVID-19 outbreak and its evolution as a pandemic and ongoing developments, the PRC's central and local governments have been rolling out a series of supporting policies to shore up the confidence of businesses and ease some of their compliance burdens, including without limitation the following major policies:

  - According to a national notice issued by the Ministry of Human Resources and Social Security, as from February 2020, all provinces (except Hubei), based on how they have been affected by the COVID-19 outbreak and pandemic and also the affordability of funds, have exempted small and medium enterprises from paying premiums on basic pension insurance, unemployment insurance and work-related injury insurance (collectively, the Relevant Social Insurances) up to the end of December 2020; for large companies, the payment of premiums on the Relevant Social Insurances have been halved till the end of June 2020. In Hubei, all enterprises have been exempted from paying premiums on the Relevant Social Insurances till the end of June 2020. With respect to social insurances generally, enterprises experiencing severe difficulties in their production and business operations/ resumption due to the COVID-19 outbreak and pandemic could apply for deferred payment of social insurance premiums of up to 6 months. In Guangdong, enterprises could apply for deferred payment of social insurance premiums in 3 months after the COVID-19 lockdown is lifted.

  - Moreover, according to a notice published by the Ministry of Housing and Urban-Rural Development, the Ministry of Finance and the People's Bank of China jointly, enterprises could apply for deferred payment of housing provident funds before the end of June 2020. For enterprises in hard-hit regions, they could negotiate with employees to halt payments to the housing provident fund or adjust the contribution ratio. In Shenzhen, enterprises having difficulties to pay housing provident fund due to the COVID-19 outbreak and pandemic could apply to reduce the rate to a minimum of 3% up to 12 months, or apply for deferred payment up to 12 months.

  - In addition, according to a provincial notification issued by the Guangdong Tax Bureau, enterprises experiencing difficulties to pay tax due to the COVID-19 outbreak and pandemic could apply to reduce or exempt property tax and urban land use tax, and enterprises having difficulties to pay tax on time could apply for deferred payment. According to a stipulation issued by the Shenzhen government, all enterprises have been exempted from payment of property tax and urban land use tax for 3 months, and enterprises experiencing difficulties to pay tax due to the COVID-19 outbreak and pandemic could apply for deferred payment up to 3 months.

- In view of the foregoing, the governmental policies at both a national level and a local level have worked for the benefit of the Group's PRC subsidiaries (including without limitation the Group's principal subsidiaries based in Beijing, Chengdu, Guizhou, Hangzhou, Hengyang, Langfang, Nanjing, Nanning, Shenzhen and Yantai, the PRC), particularly when applicable tax exemption and payment deferral have reduced and will reduce their respective tax expenses and also working capital pressure.

On 28 May 2020, the National People's Congress passed the first Civil Code of the PRC, which will become effective on 1 January 2021. The Civil Code covers various dimensions of civil society, including without limitation private property, contracts, personal privacy, marriage and family, inheritance, and torts. Upon its coming into effect on 1 January 2021, the currently effective Civil Law General Principles, Civil Law General Rules, Contract Law, Property Ownership Law, Torts Law, Marriage Law, Inheritance Law, Adoption Law and Guarantee Law will be simultaneously abolished. The Civil Code does not fundamentally or substantially change the civil law regime or the administrative system. However, the Civil Code's amalgamation of existing civil laws leads to numerous changes to the detailed civil law provisions governing companies doing business in the PRC. Many of such changes may cast substantial changes to certain business, legal or compliance models and practices that foreign companies are adopting in the PRC. For example, the Civil Code revises the stipulations of the existing Guarantee Law. In case the form of a guarantee is not specified or not clearly specified in a contract under the current PRC law, the guarantee relationship will be considered as a joint and several guarantee, meaning that the creditor (as the beneficiary under the guarantee) may choose to enforce the debt against the debtor or the guarantor. After the Civil Code becomes effective, such guarantee will be considered as a general guarantee, meaning that the creditor may only claim for debt payment against the guarantor after it has claimed against the debtor and has exhausted the remedies against the debtor. The Group's PRC subsidiaries have been reviewing the Civil Code in the context of their respective current business, legal or compliance models and practices, and will devise and implement appropriate corporate initiatives and actions in anticipation of the changes brought by the Civil Code on 1 January 2021.

For value-added tax (VAT), please refer to the background and previous developments as respectively described in page 28 of the Company's 2018 annual report as issued and published on 9 April 2019, page 67 of the Company's 2019 interim report as issued and published on 9 September 2019 and page 31 of the Company's 2019 annual report as issued and published on 16 April 2020. At this stage, the draft Value-Added Tax Law (consultation draft) jointly issued by the Ministry of Finance and the State Administration of Taxation on 27 November 2019 (Draft VAT Law) is pending the approval of the National People's Congress, and in the meantime, the Group will continue to monitor the legislation process of the VAT regime and assess the potential impacts of the Draft VAT Law on the Group in anticipation of its enactment.

In respect of foreign investment laws and regulations, please refer to the background and previous developments as respectively described in page 68 of the Company's 2019 interim report as issued and published on 9 September 2019 and pages 31 and 32 of the Company's 2019 annual report as issued and published on 16 April 2020. According to the PRC Foreign Investment Law which has come into effect on 1 January 2020 (FIL), the governance structures and constituent constitutional documents of the existing PRC foreign-invested entities of the Group (FIEs) shall be adjusted to accommodate the corresponding requirements under the PRC Company Law, which may imply additional costs of regulatory compliance. During the 5-year transition period from 1 January 2020 until 31 December 2024 under the FIL for the FIEs to conform with the PRC Company Law, the Group has been assessing this aspect, and will continue to monitor and assess the FIL's potential impacts on the FIEs and then devise and implement appropriate corporate initiatives and actions for the FIEs.

- *India*

Union Budget for 2020-2021 of India was released in February 2020, and in a bold move aimed at increasing foreign investment, has stipulated (among other things) that starting from 1 April 2020, dividends declared, distributed or paid by domestic companies to shareholders or income paid by mutual funds to unit holders would not be subject to Dividends Distribution Tax (DDT) but would be taxable for the recipient shareholders or unit holders as per applicable tax rates. Domestic companies declaring dividends to resident shareholders, or mutual funds declaring income to resident unit holders, are obligated to withhold taxes at the rate of 10%, subject to applicable threshold. In case of non-residents, the tax is required to be withheld at the rate of 20% (plus applicable surcharge and cess) or at a lower rate as per beneficial tax treaties with India. Compared with DDT which is a fixed effective tax rate of 20.56%, this has been beneficial to the shareholders of the Group's Indian subsidiaries and ultimately the Group as a whole when dividends to be distributed by the Group's Indian subsidiaries to their shareholders in future would be subject to a lower tax rate, especially their non-resident shareholders who are incorporated and existing in foreign countries which have favourable tax treaties with India.

In addition, for Basic Customs Duty (BCD), please refer to the previous developments as described in page 29 of the Company's 2018 annual report as issued and published on 9 April 2019 and page 69 of the Company's 2019 interim report as issued and published on 9 September 2019. In order to provide an impetus to domestic electronics manufacturers as part of the Prime Minister's "Make In India" initiative, BCD rates have been increased on various items, whereas customs exemptions on imports have gradually phased out. BCD on parts of cellular mobile phones such as display assembly and touch panel has been increased from nil to 10% with effect from 1 October 2020, whereas BCD exemptions have been withdrawn with effect from the prescribed effective dates ranging from 1 February 2020 to 1 April 2020 on fingerprint readers/scanners and parts for the manufacture of optical disk drives, etc. for use in the manufacture of cellular mobile phones. With the hike of BCD for some key components involved in their handset production and manufacturing activities, on the one hand, it has significantly increased the operational costs of the Group's Indian subsidiaries, though they could pass some of such extra costs to their customers, thus minimising the associated impacts on their

performance. On the other hand, as the Group's Indian subsidiaries have some capacity of making some key components for handsets in India, it will enhance their competitiveness in the local market.

Additionally, the Production Linked Incentive (PLI) Scheme for Large Scale Electronics Manufacturing offers a production linked incentive to boost domestic manufacturing and attract large investments in mobile phone manufacturing and specified electronic components, including Assembly, Testing, Marking and Packaging (ATMP) units. The PLI Scheme would tremendously boost the electronics manufacturing landscape and establish India at the global level in electronics sector, particularly an incentive of 4% to 6% on incremental sales (over base year) of goods manufactured in India and covered under target segments, to eligible companies, for a period of 5 years subsequent to the base year as defined. In line with this, the PLI Scheme aims to boost domestic manufacturing to fulfill India's national policy on electronics 2019 for the purpose of positioning India as a global hub for electronics system design and manufacturing. The Group has been assessing whether it would be able to derive benefits and advantages from participating in the PLI Scheme.

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

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

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

In relation to the Group's compliance with the relevant laws and regulations that have a significant impact on the Group in respect of environmental, social and governance aspects, please refer to the Company's separate 2019 environmental, social and governance report as issued and published on 16 April 2020.

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

**Liquidity and Financial Resources**

As at 30 June 2020, the Group had a cash balance of US$1,444 million (31 December 2019: US$1,545 million). Free cash flow, representing the net cash used in operating activities of US$353 million (31 December 2019: US$455 million) minus capital expenditure of US$46 million (31 December 2019: US$210 million), was US$399 million outflows (31 December 2019: US$665 million outflows). Free cash flow improved during the current period. The Group has abundant cash to finance its operations and investments. The Group's gearing ratio, expressed as a percentage of interest bearing external borrowings of US$837 million (31 December 2019: US$606 million) over total assets of US$5,559 million (31 December 2019: US$7,003 million), was 15.06% (31 December 2019: 8.65%). All of the external borrowings were denominated in USD and INR (31 December 2019: USD and INR). The Group borrowed according to real demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest bearing external borrowings were all at a fixed rate ranging from 0.85% to 8.00% (31 December 2019: fixed rate ranging from 2.14% to 7.85%) per annum with an original maturity of one to three months (31 December 2019: one to six months).

As at 30 June 2020, the Group's cash and cash equivalents were mainly held in USD and RMB.

Net cash used in operating activities during the current period was US$353 million.

Net cash from investing activities during the current period was US$72 million, of which, mainly, US$46 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC and India, US$1 million represented acquisition of equity instruments at fair value through other comprehensive income, US$0.3 million represented placement of bank deposits, US$270 million represented purchase of short-term investments, US$162 million represented proceeds from disposal of financial assets at fair value through profit or loss, US$4 million represented proceeds from disposal of property, plant and equipment, US$222 million represented proceeds from settlements of short-term investments and US$0.8 million represented proceeds from disposal of investment properties.

Net cash from financing activities during the current period was US$221 million, primarily due to net increase in bank borrowings of US$247 million, interest paid on bank borrowings of US$10 million, interest paid on lease liabilities of US$0.5 million and repayment of lease liabilities of US$15 million.

### Exposures to Currency Risks and Related Hedges

In order to mitigate foreign exchange risks, the Group actively utilised natural hedge technique to manage its foreign currency exposures by non-financial methods including managing the transaction currency, leading and lagging payments and receivable management.

Besides, the Group entered into short-term forward foreign exchange contracts (usually with tenors of less than three months) from time to time to hedge the currency risk resulting from its short-term bank borrowings (usually with tenors of one to three months) denominated in foreign currencies. Also, the Group, from time to time, utilised a variety of forward foreign exchange contracts to hedge its exposure to foreign exchange risks. During the second half of 2019, the Group modified the currency settlement mechanism business model with its customers for India business, and therefore the exposure to INR decreased in the first half of 2020 and is expected to further decrease in the second half of 2020.

### Capital Commitments

As at 30 June 2020, the capital commitments of the Group were US$9.4 million (31 December 2019: US$11.1 million). Usually, the capital commitments will be funded by cash generated from operations.

### Pledge of Assets

There was no pledge of the Group's assets as at 30 June 2020 and 31 December 2019.

## OUTLOOK

Regarding outlook of the Group's business and performance, we have to look at global general economy, development of COVID-19, handset market, geo-economic risks, political risks, consumer behaviors, product, technology change and OEM/ODM industry and competition landscape. As mentioned above, global smart phone shipments have already declined for three consecutive years and likely the fourth year due to the widespread of COVID-19 pandemic which causes both supply chain disruptions and demand slump. Recent study from IDC estimates smart phone shipments to decline dramatically from 1.38 billion in 2019 to 1.21 billion in 2020, especially with the 20% largest decline ever took place in China smart phone market and the 16% decline in U.S. market in the first quarter of 2020. Although China fared slightly better with a decline of 10.3% and arguably shows some early signs of market recovery in the second quarter of 2020, the other regions including Asia/Pacific (excluding China and Japan), Western Europe, and the U.S. still suffered a huge decline of 31.9%, 14.8%, and 12.6% respectively. In conclusion, there was a year-over-year decline of 15% in smart phone shipments in the first half of 2020. While the initial supply side problem led to a decline, this has evolved into plummeting demand as the global toll of COVID-19, national lockdowns and growing unemployment lead to a slowdown of consumer spending and a

change in consumption pattern. Geographically, despite the initial impact in China, the resulting restoration in production capacity and alleviation of supply chain disruption, as well as market opening, the Chinese domestic market will see a decline only in the single digits according to the latest figures of IDC. In contrast, Europe is predicted to see a double-digit decline in the region, mainly as result of hard-hit countries like Italy and Spain. According to the latest analysis published by the IDC, OEMs have already moved more aggressively with their 5G portfolios both in terms of production and price points. However, consumer demand for 5G still keeps being low, so the supply-side push is likely to produce very high-priced competition and lead to a decrease of the average ASP of new smart phones. Moreover, the only country amongst the top 3 shows a relatively flat growth is India market with a 1.5% year-on-year growth but as the national wide lockdown starts in the late March, COVID-19 will have a substantial impact for the next few quarters and it shows a significant decline in the second quarter as measures taken to combat the COVID-19 outbreak and the resulting shutdown weigh on the market in the second quarter of 2020. Nevertheless, consumer demand is still under pressure from the global economic downturn. IDC expects China market achieves growth in the fourth quarter as the global normalcy returns and 5G smartphone reaches to a lower/affordable price range. For India market, as it was originally expected to see modest single digit growth in 2020, IDC expects to see a U-shaped recovery from the third quarter onwards this year with the belief the suppressed demand will gradually shifts to the second half even rolling over to 2021.

Echoing the IDC's reported decline in handset sales, the leading chipmaker — Qualcomm's financial results, showed a flat quarter-over-quarter of chip shipments in the second quarter of 2020 due to COVID-19 including a partial impact from the delay of a global 5G-flagship phone launch. However, Qualcomm predicted a 20% upside in the third quarter as the release of new phones. Therefore, 5G devices are forecast to remain at the same volume within the range of 175–225 million in 2020. This sentiment is repeated by counterpoint, which forecasts the many postponed sales of LTE purchases during the march-June period could ultimately be converted into 5G sales later in the year. China remains a leader in 5G device consumption with 71% of devices launched in China being 5G and 30% of sell-in volumes. This forecast is further expected to increase to account for 5G devices, accounting for over 40% of total smartphone sales in China.

In addition to the impact of COVID-19, rapid technology advancements, and shifts in customer preference and consumption patterns in the mobile phone industry, recent geo-economic risks will also have a significant influence on this market. Geo-economic tensions have escalated over the last couple of years since U.S. President Trump introduced tariffs on US$60 billion worth of Chinese goods. On 22 March 2018 to make changes to what the U.S. said was "unfair trade practices", kicking off the U.S.-China trade war and escalating the war of words between the world's two largest economies into a full-blown trade conflict. Market concern around the U.S.-China trade war and its effects on China's weakening economic growth, the RMB continues to face pressure. In addition to this, more than 50 global companies, including Apple and Nintendo, have already announced plans to move production out of China due to U.S.-China trade war according to Nikkei research. United Nations' analysis published in November 2019 also found that China's export losses in the United States have resulted in trade diversion effects to the advantage of Taiwan in the communication equipment and office machinery sector and Vietnam in communication

equipment sector. Despite the Phase I trade agreement signed on 15 January 2020 offering hope of de-escalation , trade and political tensions have been exacerbated recently over allegations regarding the origins of COVID-19, increased examination of Chinese firms on U.S. exchanges which can restrict Chinese companies from listing on U.S. exchanges and raising capital from wall street, further restrictions imposed on certain Chinese technology firms, and with the potential revocation of Hong Kong's preferential trade status. Moreover, Ken Cheung, chief Asian FX strategist at Mizuho Bank noted that the RMB market will continue to be driven by China-US tensions and US$ movement in the near term. Even though no one has ever expected the trade war can be solved in any short period of time, but the trust between these two power countries deteriorated during the COVID-19 pandemic and is close to its lowest point since diplomatic ties were first established in 1979. During the interview took place on 2 February 2020, President Trump ordered the U.S. to bar entry by foreigners who had travelled in China in the past two weeks to prevent COVID-19 inflow from China and continuously accused China failing to provide accurate information about the spread of COVID-19.

Growing tensions between the U.S. and China and the pandemic, as well as resulting restrictions, have renewed and intensified calls in the U.S. and other countries for reducing dependence on China. While this sentiment and action is not expected to lead to decoupling or a major immediate shift, the pandemic is expected to increase the speed of relocation of lower-value manufacturing. The idea currently lacks any current clear major action taken behind it but there has been clear action taken by other countries to shift production away from China. According to Anwita Basu, head of Asia country risk research at Fitch Solutions published in Bloomberg, "Many companies have already begun adopting a 'China plus one' manufacturing hub strategy since the U.S.-China trade war began in 2018, with Vietnam having been a clear beneficiary". This trend may persist due to the currently observed bipartisan support in the U.S. for a tougher approach to China, increasing the possibility of the trade war intensifying in the future.

The U.S. Department of Commerce fired the first shot to disrupted the smart phone industry by placing Huawei Technologies Co. Ltd. ("Huawei") and its affiliates on its "entity list", which prohibits it from buying, selling or using anything from technology to components from U.S. firms since on 16 May 2019. On 13 May 2020, President Trump re-signed the executive order, continuing its effectiveness for 1 year, until 15 May 2021. Two days later, the U.S. Department of Commerce announced the 6th extension of the Temporary General License (TGL) authorisations for Huawei Technologies Co. Ltd. and its non-U.S. affiliates (Huawei) on the Entity List for the other 90 days. However, on the exact same date, The Bureau of Industry and Security (BIS) announced plans to protect U.S. national security and issued the amend longstanding foreign-produced direct product rule and the Entity List to narrowly and strategically target Huawei's acquisition of semiconductors that are the direct product of certain U.S. software and technology. Not limited to Huawei's smart phone, after the U.S. introduced new sanctions on Huawei, President Trump also called for every country should ban their mobile providers from buying Huawei's 5G equipment and several countries including Australia, Japan, Canada, India, and some European countries successively announced that they will prohibit carriers from using Huawei's 5G network. The U.K.'s National Cyber Security Center (NCSC), which is part intelligence agency under Government Communications Headquarters , launched an emergency review of Huawei's role in the U.K. on 24 May 2020 and recently, on 14 July 2020, the U.K.'s Digital Secretary officially asked the mobile providers to remove all Chinese firm's 5G kit from their networks by 2027. The

series of restrictions took in varies countries and the lack of Google Mobile Services (GMS) has showed significant impact on Huawei's outside of China shipment as the data from IDC showed Huawei's China market achieved the lowest 4.4% decline yet the second worst 17.1% decline in the worldwide shipment amongst the top 5 players. According to Counterpoint statistics, Huawei reached the largest smart phone shipments in the global market in the second quarter of 2020 because of its early resumption in China after the controlled pandemic situation which helped the Company to recover its lost ground faster than its competitors. As the market demand is unstable and the economic recovery is unpredicted, the Group will closely monitor the progress of the Huawei event and the resulting impact.

On top of above factors, for handset market forecast, please refer to the "Sales" section. From market perspective, phones are now more capable and durable, which will extend the replacement cycle and consumers are not compelled to upgrade quickly after COVID-19 pandemic. Before the outbreak of COVID-19, the IDC Worldwide Quarterly Phone Mobile Tracker anticipated the worldwide smart phone market is predicted to grow 1.5% year-on year in 2020, of which 5G smart phones will account for 14% or 190 million pieces yet the estimation has been adjusted dramatically to a drop of 12.57% year-on-year growth with a loss of more than 1 billion smart phone shipment. As mentioned above, the Asia segment, with China as the focus, remains the Group's core performance contributor. According to IDC analyst, China, still the world's largest smart phone market with roughly one third of all smart phones consumed, faced both challenges and opportunities this year. Although there was a significant reduction in mobile phone shipments in the first quarter of 2020 and there is a decline over the year as a result of the epidemic, April 2020's results observed signs of an optimistic rebound in demand but is still an attractive market as it recovered from the pandemic earlier than other countries. On the bright side, according to CAICT's (the China Academy of Information and Communications Technology) study, although the domestic mobile shipment was down 17.7% year-on-year in the first half of 2020, but during the period, an almost doubled month-on-month 14.2% year-on-year increase in shipments happened in April 2020 and more than 63.6 million 5G smart phones shipped (accounted for 42% of the total mobile phone shipment) in the first six months of 2020. With the expectation of accelerated adoption of 5G phones as phone ASPs come down, the China market may be able to slow down the sales volume decline in the fourth quarter in 2020.

Although the decline in Chinese market is expected to improve, the top five brands of the China handset market cannot be comforted by the fact that Huawei is facing decline in sales outside China which give them the reason to put more efforts back in Chinese market. As a matter of fact, Huawei's achieved the best performance among the top 5 players in China with a 42.6% market share which is an astonishing 4.3% jump when compared with its 2019 38.3% Chinese market share. With the saturated smart phone market, competition among Chinese vendors will become fiercer. The downfall of mobile phone demand and oversupply in Chinese OEMs may impact overall demand of the Group's end markets and future demands of the products and services to be provided by the Group. The Group's customers are striving for greater market share in the saturated market and hence the pricing of their products in the end market must be very competitive. In order to get adequate allocations from the customers and compete against players in the market, the Group has to accept the low gross margins of system assembly business with major customers. Similarly, as mentioned above, the profit margin of the casing business is also under pressure. As explained in financial performance section, due to excessive investments in mechanical capacities in the past, our peers faced similar aforementioned risks and have chosen to diversify their product mix.

The continuous decline in the Chinese market in the past few quarters led to a decline in the overall growth of some key Chinese brands. These brands have been investing in countries and regions outside China to offset the weak demand in the domestic market and the impact from U.S.-China trade war. Further escalation of the trade war has seen companies increasingly hedge against risks of tariffs by establishing operations and markets outside of China for their overseas business. The key markets for Chinese brands expansion so far are India, South-East Asia, Europe, Middle East and Africa. The Group has helped these Chinese brands to expand and internationalise rapidly in overseas markets, and these customers want to further leverage on the Group to extend their footprints in India and other emerging markets. Since 2015, given the Group's leading industry experiences in managing Indian operations and providing a wide range of services in most parts of the value chain, the Group has been expanding its local manufacturing service and component supply chain support in India to benefit from the Indian government's "Make-in-India" initiatives, which can address both the domestic Indian market and export demands. In addition, as the Group acquired a manufacturing facility in Vietnam on 18 May 2016, various customers have undertaken the necessary steps to move their manufacturing to Vietnam during 2019 as a precaution, and the Group has continued to expand its capacity and capability there to meet its customers' need. Through the localisation of raw materials, the Group is further reducing the cost and improving the quality of its Vietnam facility and the capacity so that the Group could better serve its customers in the future.

In parallel with above market perspective, we should also look at product perspective. From product perspective, with the popularity of innovation and technology, the smart phone industry has become commoditised and highly homogenised products with standardised specifications have increased market competition as it is more fragmented and the modular industry structure has lowered the entry barriers. The smart phone matures as an application, driving innovation in design and features and appearances. IDC announced a feature prediction towards China's smart phone products in the next few years, including a larger RAM capacity, higher penetration of OLED screens, under screen fingerprint, artificial intelligence (AI), facial recognition, AR/VR/3D modeling and 5G functionalities. Furthermore, the average unit price of the overall smart phone is expected to reach US$416 in 2022, an increase of 28% compared with 2018, while the replacement cycle will be lengthened. In anticipation of 5G technology, innovations in the smart phone glass surface and casing are key to success. Smart phone casing manufacturing is the core competence of the Group, and the Group is continuing to invest in the future and is committed to developing engineering capabilities and new technologies and solutions (such as new innovative materials). However, the gross margins of casing sales will inevitably deteriorate due to overcapacity in the machinery business sector caused by industry participants' excessive investment in machinery capacity in previous years and the shift in casing design from being dominated by unibody metal casing to middle frame with glass/"Glastic" back cover. In fact, a few peers of the Group have moved beyond smart phone components, some seize the opportunity to use the idle machinery to manufacture surgical masks, and others move to laptop/pc/tablet/TWS products. The Group has devoted non-stop effort to satisfy customers' demand in product innovation and cost competitiveness with the expectation to increase the utilisation of manufacturing equipment and facilities of the Group, which ultimately will benefit the gross profit.

As the smart phone industry is dynamic and competitive, a slowdown in growth leads to industry consolidation, which results in larger and more geographically diverse competitors having significant combined resources to compete against the Group and may put pressure on the supply chain. As competition remains fierce, competition from EMS/ODM/OEM peers is deemed to intensify to create pressure on the Group's business and there may be slower new customer gain with rapidly growing smart phone vendors. The Group also faces competition from the manufacturing operations of its current and potential customers (including the Group's strategic partner, HMD), which are constantly evaluating the advantages of manufacturing products in-house against outsourcing, OEM against ODM. All of these developments could potentially cause pressure on the Group's sales and the sales mix and customer mix and margins, loss of market acceptance of its services, compression of its profits or losses, and loss of its market share. To address the above challenges and uncertainties and to alleviate the impact of price erosion on gross margins, the Group must remain lean and agile by making quick business and operational decisions. The cycle time of new product development must be shortened to align with the product launch schedule of customers and shorten the time to market. Despite the increase in revenue due to increase in system assembly business, there has been pressure on gross margins.

To meet its customers' increasingly sophisticated needs, the Group has kept investing in research and development and cultivates research talents to secure the competency and continuously engaged in product research and design activities to manufacture its customers' products in the most cost-effective and consistent manner, and focused on assisting its customers with product creation, development and manufacturing solutions and further strengthened IDM competence.

The Group has dedicated PD (Product Development)/PM (Product Manufacturing) and R&D teams that are composed of experienced talents with superior industrial design capabilities and solid experiences in mass production, which makes the Group has its own capabilities of creation, qualities, yield rate, mass production, and customised design and have developed a full range of smart phones and feature phone products with innovations in industrial design, camera and audio applications to differentiate the Group's products from market competition and enable the Group to penetrate global mobile market share. The Group has fully utilised the strength of the Hon Hai Group in vertical integration for product creation. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Group, providing scale, solid experience and control in key components) are especially attractive for Chinese brands. The Group's ability to continuously upgrade its technology and stay ahead of Chinese competitors will be a big determinant in the Group being able to maintain competitive advantage and secure higher margins. The R&D team will continue to innovate on technologies and products such as industrial design, image and audio quality, user experience, AI technology, data module, network product, A IoT devices and automotive product, innovate existing and beyond mobile products, and focus on user experience in social media and establishment of ecosystem. The R&D team leverages on the entire product portfolio of mobile and wearable devices to address the opportunity for consumer IoT market and differentiate the IoT products with advanced voice user interfaces, better audio and video features. The Group had made further investment in R&D of new technology to ensure future business momentum and identify and address the changing demands of customers, industry trends and competitiveness.

In addition, as mentioned in the "Investments" section, the Group has taken necessary actions to control future impact from the change in the total fair value of the Group's investments and has always evaluated the possible alternatives to maximise the benefits (financial, operational and otherwise) from the Group's investments.

The mobile phone manufacturing business is facing various new challenges and opportunities, which have not been encountered before, needless to mention the supply chain disruption and the change in consumer behaviors caused by COVID-19 Although the Group has been doing OEM, ODM and IDM for mobile phone manufacturers for years, the Group will pursue new opportunity and engage in relevant products including 5G phones and other 5G devices as well to ensure competitiveness in the upcoming 5G era.

The decline in the OEM industry is also driven by the trend of China's capacity transformation. The rise of China's OEM mainly benefited from low labour costs, have been difficult to sustain since 2014. China domestic labour costs have risen sharply yet the efficiency of assembly line workers has not increased correspondingly and the cost advantage of China is no longer comparable with other countries in Southeast Asia. The ongoing trade war and COVID-19 pandemic caused a devastate impact on China's economy, in the first quarter of 2020, China's economy shrank 6.8% compared with a year earlier, and it is the historic slump in the world's second-largest economy since Beijing began reporting quarterly gross domestic product in 1992. Although China's economic activities showed signs of improvement as the workers began returning to work and resumption of consumer activities, but the rising of joblessness reached to 6% still higher than 5.9% in March 2020. In addition, it is worth noting that China's corporate debt has been rising in the previous years and an increasing number of defaults has been observed due to the sluggish economy, which indicates the rising credit risk of China. Global demand plummeting as a result of the pandemic will likely weigh heavily on companies in China and may lead to the growth of China's corporate debt as companies increase borrowing to sustain their operations.

China's traditional OEM and manufacturing industry is facing huge challenges and with the declining support from the government, the industry has to transform and upgrade from an existing "world factory" to the "artificial intelligent leader" and incorporate automation in order to survive, this shift may further sped up by the pandemic as the government's economic recovery strategy emphasises support of new industry. That is the reason why the Group is introducing the "Industry 4.0" smart manufacturing paradigm to reduce manufacturing costs and maintain competitive advantage. However, implementation of Industry 4.0 will take time and the Group is now making effort on this.

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in 2020. The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to cope with all these challenges and uncertainties from time to time as well as to maintain and enhance its performance. For details, please refer to the "Accountability and Audit" section of the Company's 2019 corporate governance report which forms part of the Company's 2019 annual report as issued and published on 16 April 2020.

**Key Risks faced in first half of 2020**

Regarding key risks faced in first half of 2020, please refer to the major risk items below.

***Risks Pertaining to the Handset Business***

As mentioned above, there is a year-on-year decline in handset shipments due to the smart phone market saturation. Pricing pressure has also been higher than expected. As a result, the general state of the global economy, COVID-19, trade war, protectionism, custom duty hikes, market conditions and consumer behavior, and the risk that our customers are not successful in marketing their products or that their products do not gain widespread commercial acceptance may have a significant impact on customers and the Group's operating results and financial conditions. To tackle this, the Group has to control BOM costs and manufacturing costs and improve gross margin performance and continue to monitor the impact of factors affecting business of customers and its financial health. For the Nokia-branded smart phone business, the Group has become selective when receiving orders from HMD and HMD can engage external ODMs. Handset market is highly dynamic and competitive and there are negative factors such as unfavorable product mix, increasing pricing pressure and price hikes in components and it is extremely challenging to simultaneously maintain market share and defend against margin erosion pressure while remaining cost competitive, lean and agile, and technologically advanced. Some customers may consider insourcing some of the productions so as to optimise its capacity and asset utilisation. Because of COVID-19, instead of placing orders of large quantity, customers place more frequent orders of smaller quantity. With shorter demand visibility, the Company has to control and optimise inventory and working capital and capital management in this tough period of time.

In China, the competition in 5G phone market has been fiercer and extended to the entry-level to mid-level segments earlier than expected as Chinese companies are offering 5G phones priced between RMB2,000–3,000 (US$280–421) to lure customers to migrate to 5G network. In countries which already have 5G network services, cut 5G advertising expenditures and slow down the base station deployment which ultimately affects the attractiveness for consumers to purchase 5G phones. According to a GSMA report, 5G is on track to account for only 15% of global mobile connections by 2025, as a number of 5G network launch and production of compatible devices ramp up in 2019.

***Risk Associated with U.S.–China Tensions***

The outbreak of COVID-19 took the trade war away from the sport light for a short period of time, however, the Trump administration has been taking the other approach, instead taking direct head to head fight on tariff, the war has moved on the technology and financial sectors. Technology wise, as mentioned above, the Commerce Department's ban on foreign fabricators' sales of chips to one of the Group's customer and expanded its so-called entities list on 21 May 2020, which restricts access to American technology and other items. Also, the China government provides lots of benefits to help domestic companies build their own supply chain. Therefore, it might cause negative influences on non-Chinese enterprises in the near future. As the tension between the two power countries is rising again, the Group will continue monitoring the impact and devise counter measures if necessary.

*Reliance on Key Customers*

The Group's five largest customers account for 91.34% of the Group's total revenue. The Group has strong established relationships with these major customers and it is a big challenge to maintain bargaining power with these customers. Please refer to section headed "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and our actions to manage such risk. The majority of the Group's trade receivables are from the key established customers whom the Group has strong established working relationships. The credit terms granted to them are in the range of 60 to 90 days and are in line with those granted to other customers of the Group. Subsequent settlements of trade receivables are satisfactory and therefore no additional provision is necessary. As market is volatile and because of COVID-19, general economy weakened and current credit and market conditions could have impact on the liquidity and financial condition of our customers, including any impact on their ability to meet their contractual obligations. The Group will keep monitoring credit position of customers and collections from customers and assess default risks and review adequacy of provision for Expected Credit Losses. The Group's finance team will continue to monitor closely business performance, cash position and credit status of HMD. Regarding the U.S. Government's blacklisting, export controls and bans against one of the Group's major customers, as things keep changing, the Group will continue to monitor and assess the impact and take necessary steps to mitigate the risks and the Group will dedicate resources to serve all customers and foster long term business relationship. The core business of one key customer is not in mobile phone sector and any change to the business strategy of this customer may affect our sales to this customer.

*Reliance on Key Suppliers*

Please refer to section "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and how to mitigate such risk. The risk of shortage due to excessive concentration of purchasing sources remains low.

*Foreign Exchange Risks*

Please refer to the section of "Financial Performance" for the details on how to mitigate such risks.

*COVID-19 Outbreak*

In above Outlook section, impacts of COVID-19 have been explained in details. In the section of Key Relationships with Customers, Suppliers and Employees, we explained actions taken by operations in China and India and Vietnam to minimise impact of COVID-19. As the outbreak took place in China, on 11 March 2020, WHO officially declared COVID-19 a "Pandemic", which has spread to 119 more countries apart from China. . As the full effect of COVID-19 is felt globally, the toll that the pandemic will have on the global economy and specifically the handset market is becoming clearer. Actions taken in order to block the possible spread of COVID-19 at the onset of the outbreak by the General Office of the State Council of China, and later on by the provincial and local government led to the temporary

closure of factories in China. Additionally, due to precautions involved in returning of workers to factories, a decrease in working days was observed in first quarter of 2020, leading to decreased production of the Group and an increased time for the Group to return production capacity to normal levels. The decrease in working days from 12 weeks to 11 weeks and the other 2 weeks quarantine period for the employees who were returned from other provinces inevitably create the stress on the Group's manufacturing capacity among the factories in China and the same situation is happening to the entire supply chain and impacting suppliers' cash flow, which could reverberate longer than the immediate crisis.

"Prevention of outbreak, resumption of work and production are our top priority," Hon Hai Chairman Liu Young-Way said in Hon Hai 2020 first quarter earnings call. The Group has been closely monitoring the current public health challenge linked to COVID-19 and applying all recommended health and hygiene practices and following local government's heath safeguards to combat COVID-19 to all aspects of our operations in the affected markets. The Company will keep COVID-19 impact under review and introduce measures to mitigate the impact.

As the supply chain in China returned to normal and countries across the world instituted measures to tackle the pandemic, the impact of COVID-19 shifted to demand side shortfall across the world. On the demand side, according to Bloomberg article published on 4 February 2020, the spending during the Chinese New Year Holiday week was topped US$143 billion last year, as the outbreak happened during the holiday week this year, it undisputedly stopped all the retail activities as most shops were shut down for safety reasons and consumers were forced to stay home. Also, according to the OECD official information, OECD latest economic outlook provides two scenarios for the impact of COVID-19 on the global output in a single-hit scenario where a second wave is avoided and a double-hit scenario where a new wave of outbreak triggers a return to lockdown. The OECD's single-hit and double-hit scenario prediction would see global economic activity fall by 6% and 7.6% respectively. The World bank's June 2020 Global Economic prospects envisions a 5.2% contraction in global GDP in 2020. In addition to this, the same report predicts most countries will plunge into recession and that per capita will fall in the largest proportion of countries across the world since 1870. According to IDC's update forecast, worldwide handset shipments are expected to decline by 11.9% in 2020 and are not expected to return to growth until 2021 as a result of COVID-19. For mobile phone industry, Nabila Popal, research director with IDC's Worldwide Mobile Device Trackers, said "While the supply chain in China started to recover at end of the quarter, as IDC expected, major economies around the world went into complete lockdown causing consumer demand to flat line. Consumers get increasingly cautious about their spending in such uncertain times and it is hard to think smartphone purchases will not suffer as a result. This drop in demand, combined with the lockdowns and closures of retail shops across the globe, strongly impacted all consumer device markets, including mobile phones. As the uncertainties of the lockdowns and total economic impact linger, vendors are reconsidering their outlook for 2020." The Group will continue to monitor impact of COVID-19 to global and customer demand and channels and end customers and component supplies and supply chain and operations.

*Cyber Risk Controls*

Regarding cyber risk, the Group has in place an information/cyber security policy which provides adequate security controls and protection of the financial data and business information. IT department has published a handbook which requires employees to follow strictly so that the cyber security risks can be managed and controlled across the organisation (particular for the network control) and make sure machine and system operate well and avoid any information leakage. Besides, IT department has a procedure and guideline in place enabling them to respond immediately when a cyber-attack is detected. For the network control, all the computer servers are located in a Local Network Area (Intranet) using redundant firewall design. Besides, there is a Global Security Operation Centre (GSOC) which helps manufacturing and functional units monitor their network to ensure any attack to the computer system can be detected immediately and IT department prepares a monthly report to report if any incidence of cyber-attack has been detected. In addition, IT department has a disaster recovery plan and procedure in place to ensure immediate and effective responses/ actions can be initiated when there is an attack to minimise potential harmful impact/losses and operation can be restored rapidly to avoid any business interruption and enable continuing running of business operations of the Group.

**2020 Outlook**

The Company refers to its announcements of 14 May, 5 June and 21 July 2020 respectively, which in turn refer to (among other things) the challenging conditions that the Group has been facing since late 2017. As to the challenging conditions arising from and relating to the COVID-19 pandemic, the Company wishes to update its shareholders and potential investors as follows:

(1) As the Company has previously explained, the challenging conditions that the Group has faced since late 2017 have continued into 2020. For example, the Group's gross margins generally have continued to come under pressure from competition.

(2) Since February 2020, those challenging conditions have been further exacerbated by the adverse effects of the COVID-19 pandemic. That pandemic is unprecedented, and has materially and adversely affected not only the Group, but also its customers, suppliers, associates, joint ventures and investees and, accordingly, the Group's and their respective operations and performance.

(3) In the first quarter of 2020, the outbreak of COVID-19 in China and India saw the PRC government and Indian government implement strict lockdowns, quarantine measures and travel restrictions, and many other countries implemented travel restrictions. Those measures materially and adversely affected the Group's manufacturing facilities and operations because a sizeable proportion of the Group's operations are in China and India.

(4) In China, from late January 2020 until mid-March 2020, the mandatory quarantine measures resulted in the Group postponing its manufacturing processes. In mid-March 2020, the Group restarted its manufacturing capacities, and with the assistance of the PRC local governments and the Group's customers, the Group had resumed all its manufacturing capacities.

(5) However, as COVID-19 spread around the world, further restrictions came into force. For example, on 24 March 2020, the Indian government ordered a nationwide lockdown which resulted in a total, temporary suspension of the Group's manufacturing facilities in India. Since the end of May 2020, the Group's factories have been allowed to operate with a limited workforce as a result of the continuing local COVID-19-related quarantine measures and travel restrictions.

(6) Given the significant reduction in the scale of the Group's manufacturing activities, the Group has made corresponding crisis management arrangements, for example, to seek to ensure that it can meet its obligations to its customers. As many of the Group's customers, suppliers, associates, joint ventures and investees are located in China, COVID-19 has adversely affected them and their respective operations too.

(7) Although the manufacturing capacities and supply chain have now largely recovered in China, and are on the road to recovery in India, consumer demand has been materially and adversely affected by the COVID-19 pandemic. Almost all of the Group's customers have been adversely impacted by COVID-19, and that has had a material, negative impact on the Group's sales, revenue, asset utilisation and, accordingly, overall performance. The challenging conditions explained above have further increased surplus production capacity, exacerbated competition in the handset market, and increased price and margin erosion pressure.

(8) Those challenging conditions are currently expected to continue into the remainder of 2020. The Group's financial resources (including cash, cashflow and liquidity) remain sufficient to finance its continuing operations. However, to seek to ensure that the Group will maintain that, and given the significant change in market demand and consumer-buying behaviour resulting from COVID-19, the Group has further enhanced its measures to control overall costs and operating expenses, and to seek to ease pressure on margin erosion. The Group has also suspended capital expenditure on non-critical investments. Given the increased risk to the timely collection of trade receivables, the Company anticipates that it might in future need to increase the Group's allowance for credit losses arising from trade receivables. The Company will continue to closely monitor the situation, and where it considers necessary, will implement further, appropriate measures.

(9) Given all of the matters described above, the Company considers it is currently too early and difficult to predict with any precision what further adverse impact COVID-19 and the matters described above might have on the Group's performance for the second half of 2020 and, accordingly, the full year ending 31 December 2020.

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 the Group is likely to record a consolidated net loss for the year ending 31 December 2020, though the Company is currently unable to reasonably and meaningfully estimate a precise likely magnitude of such consolidated net loss for the year ending 31 December 2020.

The Company has been working hard and doing everything that it reasonably can to maximise its performance through these challenging times. The Company will keep matters under close review as the remaining quarters of 2020 progress, and will make further announcement(s), as necessary, to keep its shareholders and potential investors informed.

In the meantime, pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose in due course (which is currently expected to be in or about November 2020) certain unaudited consolidated financial information of the Group for the nine months ending 30 September 2020, and simultaneously upon such disclosure in Taiwan, the Company will announce the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan.

The Company wishes to take this opportunity to reiterate that the Group's quarterly performance may fluctuate (possibly significantly) as a result of a number of factors, including without limitation the following, individually and collectively:

- changes in the ecosystem and macro-economic environment (e.g. intensifying trade wars and political conditions) and industry generally;

- developments of the COVID-19 pandemic and related lockdowns and restrictions and consequential adverse impacts on the global economy generally, and related changes in consumer demand, price wars, seasonality of sales, decline in the first half of 2020 of shipment and contribution margin due to the COVID-19 pandemic;

- factors relating to the supply chain (e.g. component costs, sourcing and shortage and inflationary rate) and to inventory (e.g. accumulated inventory may take time to clear and may have to be written-off);

- customers' credit risks, product launch or product recalibration strategies; possible cancellation or delay of customer orders or change of production quantities; certain customers' products having short product life time volume; market competitiveness; shifts in customers' demand and preferences and propensity to spend (e.g. in-house manufacturing instead of outsourcing);

- changes in money markets (e.g. fluctuation of interest rates and foreign exchange rates) and capital markets;

- sales and product mix changes; commodity price changes; technology advancement;

- market/legal/regulatory/tax/fiscal and monetary/government policy/tariff changes (e.g. changes of custom duty rates, government's blacklisting, export controls and bans against the Group's major customer, boycott of Chinese-made products and Chinese-based services);

- market volatility (e.g. RMB and INR and other currency volatility, stock market volatility); and

- any future impairments of property, plant and equipment, goodwill or intangible assets and equity investments; the timing of dispositions of equity investments and resulting profits/losses; the performance of the Group's associates and its share of those associates' profits/losses; renewing or meeting the conditions of any tax incentives and credits; and the timing of receipt of incentive income.

Finally, new unpredictable risks emerge from time to time and it is not possible for the management to predict all such risk factors or to assess the impact of such risk factors on the Group's business.

**Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company bought back in multiple batches (among others) a total of 8,407,906 shares on the Stock Exchange from 9 December 2019 to 31 December 2019 (both dates inclusive) and the shares were cancelled on 7 January 2020. For more details, please refer to page 71 of the Company's 2019 annual report as issued and published on 16 April 2020 as well as the next day disclosure returns and monthly returns as issued and published from 9 December 2019 to 3 February 2020 (both dates inclusive).

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

## AUDIT COMMITTEE

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the current period.

## CORPORATE GOVERNANCE

The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2020 to 30 June 2020.

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

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

Since the resignation of Mr. Tong as the chairman of the Company, the Company has been searching for the right candidate to fill the position of chairman of the Company. However, given the importance of the role, the Board expects that it may take some time before the Company is able to find a suitable candidate to fulfil the role of chairman. In light of the tremendous market challenges and the current uncertainties relating to the vacancy of the chairman role, the Board considered that experienced leadership was of utmost importance and has resolved to adopt an arrangement by appointing Mr. CHIH Yu Yang ("Mr. Chih"), the current chief executive officer, to act as the acting chairman with effect from 1 January 2017. Mr. Chih has been the Company's executive director and chief executive officer since 28 August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive and in-depth knowledge and experience in both the Company and the industry. The Board believes that this arrangement not only is crucial to the continuation in the Group's implementation of business plans and formulation of business strategies, but also serves to avoid unnecessary speculation, confusion and instability that may be caused to the Group's shareholders, investors, customers, suppliers and business partners worldwide, and that the status quo should be maintained when the Group has been facing challenging conditions, particularly when the Group has made consolidated net loss on an annual basis since 2017. Although the arrangement deviates from the relevant code provision, the Board considers that the arrangement will not impair the balance of power and authority between the Board and the management of the Company as three out of the six Board members are independent non-executive directors and the Board meets regularly to consider major matters affecting the operations of the Group and all directors of the Company are properly and promptly briefed on such matters with adequate, complete and reliable information.

In light of the above and other measures taken (including arrangements relating to delegation by the Board of certain authority as detailed in the "Other Information — Corporate Governance" section of the Company's 2018 interim report as issued and published on 19 September 2018), the Board believes that there have been adequate checks and balances at both the Board level and the Company's senior management level, and there has been sufficiently close supervision over the key operational matters of the Group, notwithstanding that the Company has not been able to comply with the code provision contained in Paragraph A.2.1 of the CG Code during the current period. The Board therefore considers that the circumstances justify the adoption of the arrangement for the chief executive officer to serve also as the acting chairman, and considers that this arrangement is currently in the best interests of the Company and its shareholders as a whole.

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

## DISCLOSURE OF INFORMATION ON WEBSITES

The interim report 2020 of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and made available on the websites of the Stock Exchange and the Company respectively in due course.

## DEFINITIONS

| | |
|---|---|
| "Articles" | the amended and restated articles of association of the Company |
| "associate(s)" | having the meaning as defined in the Listing Rules |
| "Board" | the board of directors of the Company |
| "CG Code" | Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules |
| "Company", "we" or "our" | FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange |
| "current period" or "reporting period" | the six-month period ended 30 June 2020 |
| "Group" | the Company and its subsidiaries |
| "Hon Hai" | 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only), a limited liability company incorporated in Taiwan, the shares of which are listed on the Taiwan Stock Exchange Corporation and the ultimate controlling Shareholder |
| "Hon Hai Group" | Hon Hai, its subsidiaries and/or associates (as the case may be) |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "INR" | Indian rupee, the lawful currency of India |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Model Code" | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| "PRC" or "China" | the People's Republic of China |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |

| | |
|---|---|
| "Share(s)" | ordinary share(s) with a nominal value of US$0.04 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "U.S." | the United States of America |
| "US$" or "USD" | United States dollars, the lawful currency of the U.S. |

## (2) CERTAIN ADDITIONAL FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2019

The Company (as defined above) refers to its 2019 annual report as issued and published on 16 April 2020, and in particular, note 6 (Other Income, Gains and Losses) to the Company's consolidated financial statements for the year ended 31 December 2019 as set forth in page 122 thereof.

To facilitate shareholders and investors in better understanding note 6, in addition to the information provided in note 6, the Company wishes to provide further information relating to "Others" referred to in note 6 (together with comparative figures for 2018) as follows:

| | **2019**<br>***US$'000*** | 2018<br>*US$'000* |
|---|---|---|
| Others | | |
| — Fair value loss on other financial assets at fair value through profit or loss | **(283)** | – |
| — Write-off of prepaid tooling expenses | **(502)** | – |
| — Write-off of prepaid utilities and travelling expenses | **(979)** | – |
| — Write-off of prepaid promotion expenses | **(984)** | – |
| — Write-off of prepaid maintenance expenses | **(1,518)** | – |
| — Reversal of other tax provision in previous years | **–** | 8,357 |
| — Compensation from customers and insurance companies | **–** | 1,053 |
| | **(4,266)** | 9,410 |

For the avoidance of doubt, the above additional information does not affect the other information set out in the Company's 2019 annual report.

By Order of the Board
**CHIH Yu Yang**
*Acting Chairman*

Hong Kong, 7 August 2020

*As at the date of this announcement, the Board of the Company comprises three executive directors, namely Mr. CHIH Yu Yang, Mr. WANG Chien Ho and Dr. KUO Wen-Yi; and three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih.*