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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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 2022

		Six months ended	
	NOTES	**30.6.2022** **US$'000** **(unaudited)**	30.6.2021 US$'000 (unaudited)
Revenue	*4*	**4,125,264**	3,937,867
Cost of sales		**(4,043,585)**	(3,875,550)
Gross profit		**81,679**	62,317
Other income, gains and losses		**49,039**	76,463
Selling expenses		**(3,380)**	(3,577)
General and administrative expenses		**(92,350)**	(99,906)
Research and development expenses		**(37,446)**	(62,687)
Interest expenses		**(7,251)**	(3,928)
Share of loss of associates		**(4,107)**	(96)
Share of loss of a joint venture		**(5,152)**	–
Loss before tax		**(18,968)**	(31,414)
Income tax (expense) credit	*5*	**(4,855)**	3,085
Loss for the period	*6*	**(23,823)**	(28,329)

	NOTE	Six months ended 30.6.2022 US$'000 (unaudited)	30.6.2021 US$'000 (unaudited)
Other comprehensive (expenses) 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		**(61,846)**	4,283
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(130,358)**	8,545
Share of translation reserve of associates		**(1,913)**	(1,072)
Share of translation reserve of a joint venture		**(2,684)**	–
		(134,955)	7,473
Other comprehensive (expense) income for the period		**(196,801)**	11,756
Total comprehensive expense for the period		**(220,624)**	(16,573)
Loss for the period attributable to:			
Owners of the Company		**(23,780)**	(28,184)
Non-controlling interests		**(43)**	(145)
		(23,823)	(28,329)
Total comprehensive expense attributable to:			
Owners of the Company		**(220,129)**	(16,465)
Non-controlling interests		**(495)**	(108)
		(220,624)	(16,573)
Loss per share	*8*		
Basic		**(US0.3 cent)**	(US0.3 cent)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	NOTES	**30.6.2022**	31.12.2021
		US$'000	*US$'000*
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipment	*9*	**747,884**	813,658
Right-of-use assets	*9*	**55,542**	60,210
Investment properties		**12,693**	14,655
Financial assets at fair value through profit or loss — Equity instruments		**1,900**	1,900
Financial assets at fair value through other comprehensive income — Equity instruments		**160,905**	225,339
Interests in associates		**25,728**	20,891
Interests in joint ventures		**32,164**	40,000
Deferred tax assets	*10*	**21,518**	22,132
Deposit for acquisition of right-of-use assets		**28,395**	29,881
		1,086,729	1,228,666
Current assets			
Inventories		**809,423**	850,592
Trade and other receivables	*11*	**1,832,738**	2,001,387
Bank deposits		**50,128**	14,327
Bank balances and cash		**1,675,959**	1,884,719
		4,368,248	4,751,025
Current liabilities			
Trade and other payables	*12*	**2,184,316**	2,732,383
Contract liabilities		**170,827**	105,207
Lease liabilities		**8,032**	5,033
Bank borrowings	*13*	**1,041,141**	857,490
Provision	*14*	**5,380**	6,323
Tax payable		**64,621**	71,849
		3,474,317	3,778,285
Net current assets		**893,931**	972,740
Total assets less current liabilities		**1,980,660**	2,201,406

	NOTES	**30.6.2022** ***US$'000*** **(unaudited)**	31.12.2021 *US$'000* (audited)
Capital and reserves			
Share capital		**318,920**	320,400
Reserves		**1,624,413**	1,839,560
Equity attributable to owners of the Company		**1,943,333**	2,159,960
Non-controlling interests		**6,325**	7,309
Total equity		**1,949,658**	2,167,269
Non-current liabilities			
Deferred tax liabilities	*10*	**5,786**	6,715
Deferred income	*15*	**8,492**	9,279
Lease liabilities		**16,724**	18,143
		31,002	34,137
		1,980,660	2,201,406

Notes:

1. **INDEPENDENT REVIEW**

The interim results for the six months ended 30 June 2022 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 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.

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") and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2021.

Share-based payment arrangements

Equity-settled share-based payment transactions

Cancellation of the share-based payment arrangements

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

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on or after 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018–2020

Except as described below, the application of 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.

3.1 Impacts and accounting policies on application of Amendments to IAS 16 "Property, Plant and Equipment — Proceeds before Intended Use"

3.1.1 Accounting policies

Property, plant and equipment

Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing the related assets functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss.

3.1.2 Transition and summary of effects

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

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$4,125,264,000 (2021: US$3,937,867,000), to its customers in connection with the production of handsets.

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

	Six months ended	
	30.6.2022	30.6.2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Segment revenue (external sales)		
Asia	**2,867,476**	3,451,984
Europe	**491,862**	280,360
America	**765,926**	205,523
Total	**4,125,264**	3,937,867
Segment profit		
Asia	**46,600**	52,853
Europe	**4,616**	8,335
America	**20,330**	13,827
	71,546	75,015
Other income, gains and losses	**55,792**	60,188
General and administrative expenses	**(92,350)**	(99,906)
Research and development expenses	**(37,446)**	(62,687)
Interest expenses	**(7,251)**	(3,928)
Share of loss of associates	**(4,107)**	(96)
Share of loss of a joint venture	**(5,152)**	–
Loss before tax	**(18,968)**	(31,414)

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

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

5. INCOME TAX EXPENSE (CREDIT)

The income tax expense (credit) comprises:

	Six months ended	
	30.6.2022	30.6.2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Current tax:		
— Hong Kong	**–**	–
— Other jurisdictions	**6,746**	3,174
	6,746	3,174
Overprovision in prior periods:		
— Hong Kong	**–**	–
— Other jurisdictions	**(1,283)**	(3,900)
	(1,283)	(3,900)
Deferred tax *(note 10)*		
Current period	**(608)**	(2,359)
	4,855	(3,085)

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% (2021: 25%). Two of the Company's PRC subsidiaries were awarded with the Advanced — Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% for a period of 3 years, i.e. effective from 2019 and 2021, respectively. In addition, two of the Company's PRC subsidiaries were entitled to a concessionary tax rate of 15% under the China's "Great Western Expansion" campaign. Except for these subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2021: 25%).

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

6. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2022	30.6.2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**84,397**	91,070
Depreciation of right-of-use assets	**3,432**	3,071
Depreciation of investment properties	**1,219**	1,316
Total depreciation	**89,048**	95,457
Less: Amount capitalised in inventories	**(71,278)**	(74,768)
Less: Amount included in research and development expenses	**(2,773)**	(5,503)
	14,997	15,186
Cost of inventories recognised as expense	**4,014,248**	3,853,804
Provision for warranty	**5,220**	1,258
Write down of inventories to net realisable value	**24,117**	20,488
Impairment loss recognised in respect of trade receivables, net	**14,462**	4,803
Net exchange (gain) loss	**(13,613)**	10
Loss (gain) on disposal of property, plant and equipment	**2,689**	(561)
Interest income from bank deposits	**(19,027)**	(16,352)

7. DIVIDENDS

No dividend was paid, declared or proposed for the six months ended 30 June 2022 and 30 June 2021, and a special cash dividend from the Company will be proposed upon completion of the proposed spin-off of Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited) ("BFIH").

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	
	30.6.2022	30.6.2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Loss attributable to the owners of the Company		
Loss for the purposes of basic loss per share	**(23,780)**	(28,184)

	Six months ended	
	30.6.2022	30.6.2021
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**7,983,103,751**	8,084,621,160

The calculation of diluted loss per share for the six months ended 30 June 2022 does not take into account the share awards issued by the Company because it is anti-dilutive nor it has taken into account the impact from the share options issued by its subsidiary as the directors of the Company consider the impact is immaterial. No diluted loss per share was presented for the six months ended 30 June 2021, as there were no potential ordinary shares in issue.

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

During the current period, the Group acquired property, plant and equipment of approximately US$59,241,000 (for the six months ended 30 June 2021: US$53,614,000).

In addition, the Group entered into a new lease agreement with lease term of three years (for the six months ended 30 June 2021: several new lease agreements with lease term of two years). On lease commencement, the Group recognised right-of-use assets of approximately US$1,409,000 (for the six months ended 30 June 2021: US$872,000) and lease liabilities of US$1,409,000 (for the six months ended 30 June 2021: US$872,000). During the current period, the Group obtained ownership of certain leased assets with an aggregate carrying amount of US$218,000 (for the six months ended 30 June 2021: US$11,885,000) at the end of the lease terms, which were classified as property, plant and equipment.

During the current period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of US$3,665,000 (for the six months ended 30 June 2021: US$2,747,000) for proceeds of US$976,000 (for the six months ended 30 June 2021: US$3,308,000), resulting in a loss on disposal of US$2,689,000 (for the six months ended 30 June 2021: gain on disposal of US$561,000).

10. DEFERRED TAXATION

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

	Allowances for inventories	**Accelerated tax depreciation**	**Tax losses**	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000* *(Note)*	*US$'000*
At 1 January 2021 (audited)	(2,309)	7,319	(6,959)	(6,930)	(8,879)
Charge (credit) to profit or loss for the period	218	(2,872)	319	(24)	(2,359)
Exchange adjustments	(11)	57	(36)	(31)	(21)
At 30 June 2021 (unaudited)	(2,102)	4,504	(6,676)	(6,985)	(11,259)
At 1 January 2022 (audited)	**(2,922)**	**3,901**	**(3,986)**	**(12,410)**	**(15,417)**
Charge (credit) to profit or loss for the period	**499**	**(241)**	**(1,193)**	**327**	**(608)**
Exchange adjustments	**102**	**(163)**	**(109)**	**463**	**293**
At 30 June 2022 (unaudited)	**(2,321)**	**3,497**	**(5,288)**	**(11,620)**	**(15,732)**

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:

	30.6.2022	31.12.2021
	US$'000	*US$'000*
	(unaudited)	(audited)
Deferred tax assets	**(21,518)**	(22,132)
Deferred tax liabilities	**5,786**	6,715
	(15,732)	(15,417)

At 30 June 2022, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$85,858,000 (31.12.2021: US$101,194,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 30 June 2022, the Group has unused tax losses of approximately US$2,095,514,000 (31.12.2021: US$2,060,513,000) available for offset against future profits. As at 30 June 2022, a deferred tax asset has been recognised in respect of approximately US$17,627,000 (31.12.2021: US$13,286,000) of such losses. As at 30 June 2022, no deferred tax asset has been recognised in respect of the remaining tax losses of US$2,077,887,000 (31.12.2021: US$2,047,227,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. Included in unrecognised tax losses are losses of US$382,711,000 (31.12.2021: US$356,292,000) which will expire by 5 consecutive years. Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$858,622,000 (31.12.2021: US$914,615,000) 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

	30.6.2022	31.12.2021
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables	**1,588,870**	1,708,217
Less: Allowance for credit losses	**(26,605)**	(12,642)
	1,562,265	1,695,575
Other taxes recoverable	**167,272**	181,870
Other receivables, deposits and prepayments	**103,201**	123,942
Total trade and other receivables	**1,832,738**	2,001,387

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

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

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

	30.6.2022	31.12.2021
	US$'000	*US$'000*
	(unaudited)	(audited)
0–90 days	**1,443,262**	1,574,028
91–180 days	**66,283**	95,205
181–360 days	**49,607**	26,158
Over 360 days	**3,113**	184
	1,562,265	1,695,575

As at 30 June 2022, the Group provided impairment allowance of US$26,605,000 (30.6.2021: US$12,661,000) based on the Group's expected credit loss assessment on its trade receivables.

12. TRADE AND OTHER PAYABLES

	30.6.2022	31.12.2021
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade payables	**1,521,327**	2,038,092
Other tax payables	**109,619**	118,587
Accrued staff costs and employee benefits	**138,583**	136,285
Others	**414,787**	439,419
	2,184,316	2,732,383

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

	30.6.2022	31.12.2021
	US$'000	*US$'000*
	(unaudited)	(audited)
0–90 days	**1,337,012**	1,950,662
91–180 days	**157,578**	57,682
181–360 days	**3,040**	18,334
Over 360 days	**23,697**	11,414
	1,521,327	2,038,092

13. BANK BORROWINGS

	30.6.2022	31.12.2021
	US$'000	*US$'000*
	(unaudited)	(audited)
Bank borrowings	**1,041,141**	857,490

Analysis of bank borrowings by currency:

US$	**945,800**	816,280
RMB	**92,420**	39,200
INR	**2,921**	2,010

The bank borrowings as at the end of the reporting period are unsecured, with original maturity of one to six months (31.12.2021: one to six months), repayable within one year and carry interest at fixed interest rates ranging from 1.48% to 5.90% (31.12.2021: 0.61% to 5.90%) per annum.

14. PROVISION

	Warranty provision
	US$'000
At 1 January 2021 (audited)	9,499
Exchange adjustments	135
Provision for the year	6,058
Utilisation of provision/upon expiry of the warranty period	(9,369)
At 31 December 2021 (audited)	**6,323**
Exchange adjustments	**(278)**
Provision for the period	**5,220**
Utilisation of provision/upon expiry of the warranty period	**(5,885)**
At 30 June 2022 (unaudited)	**5,380**

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

	30.6.2022	31.12.2021
	US$'000	*US$'000*
	(unaudited)	(audited)
Government subsidies	**8,492**	9,279

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 2022 (unaudited)		
Financial assets/liabilities subject to offsetting	**Gross amounts of recognised financial assets (liabilities)** *US$'000*	**Gross amounts of recognised financial (liabilities) assets set off in the condensed consolidated statement of financial position** *US$'000*	**Net amounts of financial assets (liabilities) presented in the condensed consolidated statement of financial position** *US$'000*
Bank balances	**533,999**	**(533,999)**	**–**
Bank borrowings	**(533,999)**	**533,999**	**–**
Interest receivables	**1,656**	**(1,269)**	**387**
Interest payables	**(1,269)**	**1,269**	**–**

	As at 31 December 2021 (audited)		
Financial assets/liabilities subject to offsetting	Gross amounts of recognised financial assets (liabilities) *US$'000*	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position *US$'000*	Net amounts of financial assets presented in the consolidated statement of financial position *US$'000*
Bank balances	534,850	(534,850)	–
Bank borrowings	(534,850)	534,850	–
Interest receivables	4,304	(3,714)	590
Interest payables	(3,714)	3,714	–

During the period, net interest income of US$1,130,000 (for the six months ended 30 June 2021: US$1,011,000) was included in interest income under the above arrangement.

IMPORTANT

The Group's consolidated interim results for the six-month period ended 30 June 2022 (the "current period" or the "reporting 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. In particular, as there is the Chinese New Year holiday (especially a long break in the PRC and Taiwan) in the first quarter of each year which is generally a low season post-Chinese New Year for the industry in which the Group operates, the Group's performance in the first quarter is usually not comprehensive and representative, compared with that in the other quarters.

The Company (also referred to as "we", "our" or "us" below) refers to its announcement of 11 May 2022, which in turn referred to (among other things) the various factors attributable to the Group's consolidated net loss for the current period, which factors have continued and are currently expected to continue into the remainder of 2022. In this respect, please also refer to "Outlook".

This announcement contains forward-looking statements regarding the Group's expectations and outlook on order book, business operations, opportunities, threats and prospects. These forward-looking statements are subject to risks and uncertainties and do not constitute guarantees of the future performance and order book of the Group and are subject to factors that could cause the Group's actual results and order book to differ (possibly materially) from those expressed in the forward-looking statements. These factors may include, but may not be limited to, anticipated and potential adverse impacts resulting from the COVID-19 pandemic, the scope and duration and severity and evolution of the COVID-19 pandemic and related risks and its impact on our sites, customers, supply chain and operations, the anticipated impact of COVID-19-related government relief measures, and our intention to apply for, and the anticipated receipt of COVID-19-related government relief packages, changes in general industry and macro-economic environment (such as intensifying tensions and political conditions), changes in money markets (such as interest rate hikes and inflationary rate and volatility in foreign exchange rates), changes in capital markets, vigorous competition, shifts in customers' demand and preferences and managing fluctuations in customer demand and other related customer challenges that may occur, customer outsourcing strategy, competitive challenges affecting our customers, the risk of customer delays and changes and cancellations or forecast inaccuracies in both ongoing and new programs, seasonality of sales, shifting of end-user preferences and higher revenue volatility, changes in sales and product mix and asset utilisation, our ability to secure new customers, maintain our current customer base and deliver product on a timely basis, the risks associated with excess and obsolete inventory (including the risk that inventory purchased on behalf of our customers may not be consumed or otherwise paid for by the customer, resulting in an inventory write-off), the risks of concentration of work for certain customers, the particular risks relative to new or recent customers or programs or services (which risks include customer and other delays, start-up costs, potential inability to execute, the establishment of appropriate terms of agreements), changes in commodity price, the ability to realise anticipated savings from restructuring or similar actions, shortage of components (like chipsets and components), and materials

constraints and prolonged delivery lead time and rises in prices, the risk that new program wins and/or customer demand may not result in the expected revenue or profitability, our growth and diversification strategies and plans (and potential hindrances thereto), our credit risk, risks associated with international sales and operations, pace of technology advancement, and changes in market/legal/regulatory/government/tax policy (e.g. government's blacklisting, export controls and bans against the Group's major customer), the potential adverse impacts of events outside of our control. Although the Group believes these statements are based on and derived from reasonable assumptions, they involve risks, uncertainties and assumptions that are beyond the Group's ability to control or predict, relating to operations, markets and the business environment generally. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual outcomes, including the future results of our operations, may vary materially from those indicated. In addition, new unpredictable risks emerge from time to time and it is not possible for the management to predict all such risk factors or to assess the impacts of such risk factors on the Group's business. For more details, please see "Outlook" below. The Company undertakes no obligation to update or revise any such forward-looking statements to reflect any subsequent events or circumstances, except as otherwise required by applicable requirements laid down by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). Accordingly, the shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

DISCUSSION AND ANALYSIS

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (and together with its subsidiaries and associates (as defined in the Listing Rules), the "Hon Hai Technology Group"; Hon Hai is a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation), and a leader in the handset industry worldwide providing leading-edge manufacturing technology and vertically integrated manufacturing services and product development services to its customers with improved product quality, increased flexibility, faster volume to market and time to market, and overall value. The Company offers solutions that span from initial design and product development through ramp-up and volume manufacturing and this business model offers a comprehensive range of end-to-end manufacturing and engineering services to its customers tailored to meet specific market and customer product lifecycle requirements in respect of handsets and other wireless communication devices and consumer electronic products and this full range and wide array of capabilities provide our customers with expertise across the entire value chain. The products and services include unique and innovative product development and design, casings (including casings sold to customers and casings used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly, supply chain services and solutions, and repair and refurbishment and other after-sales services which are located close to the customers. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as eReaders, tablets, and voice interaction products like smart speakers. Within design and development, the Group provides

customers with a broad spectrum of OEM (Original Equipment Manufacturing) and ODM (Original Design Manufacturing) capabilities and our strength lies in delivering product and software development and manufacturing solutions of high complexity that require strong engineering and technical and design proficiency. The Group's ODM offering includes developing hardware and software platforms and design solutions in collaboration with customers, as well as management of the program's design and development and aspects of the supply chain and manufacturing and cost optimisation. Technology innovation is at the center of our ability to deliver these end-to-end capabilities. We have a well-established quality management system that focuses on continual process improvement which enables us to consistently deliver high-quality products and services to meet the requirements of customers. Our customers leverage our services to meet their requirements throughout the entire lifecycle of their products and to reduce manufacturing costs, improve supply chain management, reduce inventory obsolescence, and shorten time to volume and time to market utilising our large-scale manufacturing infrastructure in various locations and our ability to serve a broad range of end markets. The Group operates a network of sites and centers of excellence strategically located worldwide in China, India, Vietnam, Taiwan, Mexico and America which can fulfill customers' requirements in different countries and reduce landed costs of products.

Handset manufacturing industry is highly dynamic and competitive and since late 2017, the Group has faced challenging market conditions and high margin erosion pressure, and those conditions have continued into 2022. In order to have a better understanding of the challenges faced by the Group, we have to look from demand and supply side and the mismatch between demand and supply which will directly affect margin performance. The Group has been providing casing and system assembly of consumer electronic products to its customers. On demand side, keen market competition and COVID-19 and intensifying geo-political tension and current macroeconomic uncertainties and inflationary pressure in large markets slowed down phones demand in major markets and make it difficult to predict order book and aggressive pricing is a common business dynamic as entry barrier is low, and peers in China are very cost competitive. So far in 2022, demand in China, the largest handset market, has been sluggish. That softer demand has seemingly been reflected in reduced end-consumer appetite and reassessments of Chinese brands. Also, there are lots of ongoing supply issues including component supply instability, logistical challenges and transportation and the lockdowns in several China cities and poor sentiment caused by the COVID-19 outbreak and slower economic momentum and the lack of product upgrades, which are exacerbating an already difficult situation. According to IDC report on 29 July 2022, 140 million smartphones were shipped in China in the first half of this year, down 14.4% year-on-year. The data pointed to a deeper contraction in the domestic market for mobile phones amid broad-based consumption sluggishness. Though the decline was partly the result of a high comparison base year, the slowed down of economy of China and dampened consumer spending and multiple supply problems were the major reasons of the downturn. Similar factors have also been reflected on the sales performance of China's mid year 618 (June 18th) online shopping festival. According to the research from Strategy Analytics published on 29 June 2022, the smartphones sold during the festival decreased by 25% year-over-year to 14 million units, and total revenue also posted 16% decline with US$9.5 billion due to COVID-related disruptions and economic headwinds caused such dramatic performance. It is worthy to note that the market challenges had more severe impacts on the low-end phones which dominated by the Chinese local brands. According to the latest report released by China Academy of

Information and Communications Technology (CAICT), although the smartphone shipments shown a positive increase in June 2022 after the consecutive downturn since the beginning of 2022, the Chinese domestics brands still faced a year-over-year shipments decline.

The rapid spread of the virus in 2020 prompted shutdowns of industries around the world and, while most of us were in lockdown, there was lower consumer demand and reduced industrial activity. Years on, apart from China which continues to adopt strict dynamic "zero-COVID" policy, the rest of the world is learning to co-exist with the virus and is basically going for some sort of half combination of herd immunity and high-quality vaccination. 2022 is originally to be the year of post-COVID-19 normalisation, labour market healing, and a growth revival. Instead, COVID-19 flare up in China and the spike in geo-political tensions triggered by the war in Ukraine and the sanctions to Russia have exacerbated global supply chain disruptions and 2022 is turning into a fraught period of geo-political realignments, persistent supply disruptions, and financial market volatility, all against the background of surging inflationary pressures which is rapidly spreading from Europe to the world and there is limited room for policy maneuver. Due to the high transmissibility of Omicron, the extent and severity and duration of the impact remain uncertain. Through the effort of the team and the support of local government, customers, suppliers and logistics providers, the Group has succeeded to minimise the impact to current year operation. But it needs close and continuous monitoring as there are still a lot of uncertainties of different aspects. In regards to the global consumer electronics industry, the COVID-19 challenge had catalysed the acceleration of digital transformations, and demand for consumer electronics spiked in 2020, causing an urgent need for devices supporting activities such as work from home and remote learning. However, the demand has been eased this year. As the pandemic situations have stabilised across countries and people gradually got back to the normal life and worked at physical offices, consumer electronics demand is showing signs of slowing down. According to IDC press release on 28 April and 28 July 2022, the smartphone market marks the consecutive quarters of decline as shipments fell to 314.1 million units and 286.0 million units in the first and second quarter of 2022 respectively, down by 8.9% and 3.5% year-over-year. Similarly, worldwide PC shipments dropped 5.1% and 15.3% to 80.5 million and 71.3 million units in the first and second quarter respectively not only because of sluggish demand but also persistent macroeconomic headwinds. Echoing to the statistical numbers, the chairman of the leading semiconductor manufacturing company, TSMC, Mark Liu said in the annual shareholders meeting, "the demand drop is mainly for consumer devices like smartphones and PCs, while EV demand is very strong and partially exceeds our supply capacity so we are making inventory adjustments." In the meantime, geo-political uncertainties and COVID-related lockdowns in China also unhinged the supply chain and end market. Liu also warned that the cost of components and materials are rising sharply, pushing up production costs for technology and chip companies. Such pressure could eventually be passed on to consumers to further influence their purchasing decision. Looking ahead, according to another IDC report on 1 June 2022, the researcher expects the global smartphone shipments will decline 3.5% to 1.31 billion units in 2022. The forecast has been significantly reduced from the previous projection of 1.6% growth after fourth consecutive quarters of decline and the persistent challenges mentioned above. Nevertheless, the report indicates these challenges may ease by the end of this year and the market will gradually recover in 2023 with 5% growth rate.

In view of the slowdown in growth rate of smartphones shipment, the Group is committed to diversifying the revenue contribution from mobile phones and mitigating the risk of dependence on a single customer and product and region. Facing the strong headwinds,

customers may shift production between EMS (Electronic Manufacturing Services) and ODM (Original Design Manufacturing) service providers for a number of reasons. They include changes in competition landscape and consumer behaviour and propensity to spend, China Plus One strategy, demand for their products, global economy, regional geo-political tensions, reshoring plans of suppliers/customers, pricing concessions, more favourable payment terms and conditions, tax efficiency, enterprise risk management, ESG compliance, optimisation of logistics costs and value chain, quality of engineering and product development services, on-time delivery and tax benefits. Customers may also change their outsourcing strategies and the amount of business they outsource in order to integrate vertically or consolidate through their supply chain capacity or rotating their supply chain partners or increase specialisation through further contracting or the concentration of location of their EMS suppliers.

It is so very clear market stimulated through loose monetary policy in the past years created a monster, inflation. Urgency of sustaining economy in a global pandemic could very well justify extended quantitative easing (QE) in most economies over the last two years. Yet negative side effect went out of control. U.S. CPI in June rose to the highest level in four decades. A clear signal on inflation level and on spending and demand to goods and services in U.S.. Another challenge accompanied inflation problem actually is its fix. Monetary policy change to be instigated by major economies to contain it. Inflation threat to economy started looming already back in the second half of 2021. Most countries missed the best window to do a fix for various economic and political reasons. Quick and high interest rate hike and fast paced tapering are medicines being put in place in extra heavy dosage aiming to make up the lost time from last year. Through which, spending and investment are expected to contract in the coming six to twelve months and market demand will die down along the way. Prolonging Russia-Ukraine conflict since February has been adding pressure to consumer spending in Europe. Another near term setback to market demand. Altogether, recession can potentially be an atrocious result over time. Lastly, in China, second biggest economy in the world, two observations, economic activity and growth are slowed down by continuing lockdown, and consumer spending follows; secondly, market maturity extended handset renewal cycle, 5G/LTE penetration in China reached well over 90%, handset demand growth begins level off.

A majority of the market participants face challenges with respect to the operating margin as component prices are on an average and key focus lies on the labour costs. China experiences high turnover of direct labour in the manufacturing sector due to the intensely competitive and fluid market for labour, and the retention of adequate labour is a challenge. High labour turnover rates makes it difficult to adequately manage our labour needs. Vietnam also increased minimum wages from 1 July 2022, two years after remaining unchanged. As for low cost products, the Company endeavors to provide products with lower manufacturing cost to fulfill consumers' needs. The mix of products ordered by and shipped to major customers will affect the Group's gross margin as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services. Cost reductions, especially cost containment in parts of our supply chains, is a tough work. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans and currently this is viewed as a significant restraining factor for the market.

Russia and Ukraine warfare has converged with other disruptions — supply-chain strains, inflation and the pandemic and it is now posing a looming threat to our global food supply and caused a negative ripple effect on global economic. Russia is a major supplier of oil, gas, and

metals, and, together with Ukraine, of wheat and corn. Reduced supplies of these commodities have driven their prices up sharply. Rising oil prices are also fuelling inflation and that is resulting in a rise in the cost of transportation and logistics, as well as operational costs, for companies across the board and the impact of this is already visible. Ukraine is a major producer of primary staple of wheat and a slight disruption in supply creates some impact on price. The broad picture here is that the euro area economy is slowing pretty rapidly because much higher inflation begins to weigh on incomes and on consumption, and energy prices are weighing on producers. With prices already surging and demand holding up well in most major economies until recently, an escalation of inflationary pressures around the world is in prospect. It is expected that central banks will introduce more aggressive interest rate hikes in order to control price rises. Consumer and business confidence have taken a hit, which bodes ill for consumer demand and especially for business investment. The shock waves from the conflict will continue to reverberate around the globe with both the World Bank and IMF lowering their global growth forecasts. In particular, there is high concern about the food situation in low-income countries and the war is really sending shockwaves all the way to Africa and the Middle East as many of these countries depend on wheat from Ukraine and Russia to feed their people and the war could spark starvation and causing social unrest and political turmoil. The future of the war is highly uncertain and the depth of the impact and shockwaves on the global economy of course depends on how long the war lasts and the scale of the devastation and disruption that it causes. As some of the Group's customers sell/distribute phones to Europe/Africa and it is expected that Ukraine war may last for a long time, the Group has to continue to monitor the developments and take necessary precautionary measures in a proactive manner to minimise possible impacts to the business and operation of the Group.

As a whole, the market for OEM and ODM services is characterised by rapidly changing technology and continuing process development and the Group devoted resources to these two areas to enhance our capabilities. Our continued effort on business diversification and transformation and remaining lean and expanding overseas operations and making continuous improvements is critical to the long term sustainability of the Group and strategically positioning the Group to take advantage of the future growth prospects of OEM/ODM industry and makes us a stronger and trusted long term partner to our customers. Disruptive impact of COVID-19 and stringent anti-COVID-19 measures in China and the domino effect to supply chain and risk of further U.S.-China tensions, which has been exacerbated after the invasion of Ukraine, will keep weighing on market sentiment and the limited macroeconomic policy space that now confronts most governments will make 2022 a tough year for global growth. Weakened Chinese production poses a major setback for businesses hoping to unclog supply chain bottlenecks that have plagued the global economic recovery. The ongoing conflict has also potentially, profoundly affected consumer buying behaviour. Rising inflation would have an adverse effect on people's disposable income, which would likely prolong the replacement cycle in the smartphone market and replacement demand has also slowed on a lack of product differentiation and smartphone production might be subject to further downward revisions. The recovery will depend on how quickly and to what extent normal economic and operating conditions can resume. It is a long journey to return to pre-pandemic level. Despite ongoing shocks to the global economy, the Federal Reserve did not deviate from its plans of monetary tightening and market thus expects a series of rate hikes in 2022 and 2023. With inflation at a 40-year high and the labour market still tight, the Federal Reserve has pulled another instrument from its monetary policy toolbox. In addition to raising its key interest rate target,

the Federal Reserve has said it will start to shrink its balance sheet, another step in post-pandemic policy normalisation. In this context, the USD is likely to appreciate and cost of credit and borrowing in USD will become more expensive.

China's economic stability and growth through the pandemic cemented its status as a global economic cornerstone with much of the world relying on China's products for their own economic recoveries. However, as it faces waning momentum to its own domestic economy and its Belt and Road Initiative, the rest of the world must consider whether China can be relied upon as a key engine of growth and supply. The Group continues to monitor the dynamics and impacts of the global economic and financial environment and geo-political tensions and Russia sanctions and challenges of chipset and component supply instability and supply chain constraints and logistic chaos and work to manage our risk, strategies, capital structure, treasury risk management, organisation, priorities, costs, overheads, footprint, receivables collection, capital expenditures and resources in a proactive manner to anticipate and prepare for any changes we deem necessary and make continuous improvements and remain lean and agile. To ensure that the Group has been prepared for an uncertain demand environment, it has aggressively eliminated the obsolete, redundant, surplus and under-performing assets to become an asset-light corporate group and a lean organisation and optimised headcounts and cut costs and expenses with the intention of improving utilisation and preserving cash. With the Research and Development ("R&D") capabilities and competencies and know-how in working with a wide range of materials and craftsmanship and the provision of a wide spectrum of value-add design services and manufacturing solutions ranging from traditional metal stamping and plastic injection to system assembly solutions, the Group is able to fulfill its customers' changing and diverse needs in performance, cost, time-to-market and manufacturability and product design requirements and offer comprehensive and competitive one-stop-shopping manufacturing solutions that are customised to each customer's needs worldwide. Our global design teams are focused on delivering flexible solutions and expertise which aims to help customers reduce overall product costs, improve time-to-market, introduce competitively differentiated products, and drive hardware innovations. We believe our customer-centric approach promotes increased efficient customer response, particularly for customer relationships that extend across multiple production locations when more customers are now increasingly evaluating supply chain alternatives in Asia Pacific region.

On the supply side, China, the global manufacturing center for most of these devices and components, and the world's largest smartphone consumer market, is still adopting a dynamic zero-COVID policy and COVID-19 pandemic has severely disrupted the balance between supply and demand in the smartphones market. With nationwide lockdown, the smartphone manufacturing sector has been adversely hit by delayed shipments and weakened development of next-generation products. Also, the country has witnessed being choked off from suppliers, workers, and logistics networks. Not only will this policy exacerbate labour and material shortages in the intricate smartphone supply chain, pandemic prevention activities will also throw cold water on demand. More explanation will be provided in below section of "Impacts of COVID-19 and Supply Chain Instability". The Group started its manufacturing in China and in recent years, it has been keen to develop overseas, especially in India and Vietnam. Also the Group is keen to diversify its business.

(I) Overseas Operation in Asia

India Operation

India is rapidly emerging as a preferred country for foreign investments as the steps taken by the government led by Prime Minister Narendra Modi during the last eight years have borne fruit as is evident from the ever-increasing volumes of foreign direct investment (FDI) inflow setting new records. The FDI inflow in India was at its highest ever at US$81.97 billion in financial year ended 31 March 2021. India's FDI policy is liberal and transparent. Most of the sectors are open to FDI under the automatic route. To further liberalise and simplify FDI policy for providing ease of doing business and attract investments, reforms have been undertaken recently across sectors such as coal mining, contract manufacturing, digital media, single brand retail trading, civil aviation, defense, insurance and telecom. Various initiatives/ schemes have been launched by the government for promoting growth and attracting investment in India. Because of these initiatives India jumped to 63rd place in World Bank's Ease of Doing Business (EODB) ranking as per World Bank's Doing Business Report (DBR) 2020 from a rank of 142 in 2014. The top recipient sector of FDI Equity inflow during the financial year ended 31 March 2022 was computer software and hardware. Interestingly, despite the COVID-induced pandemic, the FDI inflow into the country in the financial year ended 31 March 2021 was US$81.97 billion. Manufacturing sector is also seeing a boost with global investors seeing India as a preferred destination. In a major boost to the economy, FDI Equity inflow in the Manufacturing Sectors has increased by 76% in the financial year ended 31 March 2022 (US$21.34 billion) compared to previous financial year ended 31 March 2021 (US$12.09 billion).

Bharat FIH Limited ("BFIH"), formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited, a subsidiary of the Company incorporated in India, is the largest Electronic Manufacturing Services (EMS) provider in India. In addition to EMS services, BFIH is building the capabilities to provide Original Equipment Manufacturers (OEMs) with a comprehensive, vertically integrated "one-stop solution" comprising a range of Original Design Manufacturer (ODM) services, including product design and development, component manufacturing and sourcing, logistics, and after-sales services and has also been expanding its business into high-growth industries other than mobile phones, including mechanics, electric vehicles, televisions and hearables. In response to slower growth rates and increased pricing pressures in our traditional markets, BFIH intends to continue to concentrate on expanding our business beyond such traditional markets.

BFIH's aim is to maintain its position as the leading EMS provider in India and to become a leader in the country's ODM market in the near term, with the following as the key pillars in our growth strategy: (1) expand its business in new, high-growth industries; BFIH smartly diversified into new product segments such as mechanics, EV, TWS, TV and Telecom to reduce risk exposure from single segment of mobile phones. BFIH is in advanced discussions with different new brands for manufacturing of EV sub-systems. Furthermore, hearables segment will get top OEM brands as new customers; (2) provide vertically integrated "one-stop" EMS and ODM solutions to its OEM customers; (3) enhance its R&D capabilities; and (4) commence exports to attractive growth markets. BFIH's collaborative relationships with industry-leading OEM customers are crucial to its success. BFIH intends to further deepen our relationships with its major customers by providing them with a wider range of vertically integrated service offerings, and integrating innovative solutions into their design processes

and product development. For example, it has started offering mechanics services, in addition to manufacturing and assembly services, and will further offer value add services such as product design and development and component manufacturing and sourcing. BFIH is using its EMS experience and the ODM capabilities to diversify into new high growth industries such as mechanics, electric vehicles, televisions, hearables, telecom and networking products, and IT hardware. BFIH has established strategic business units to coordinate the expansion of its business in these industries, expand its customer base substantially, and create further opportunities for revenue diversification. It intends to further empower its strategic business units to formulate strategies tailored to the needs of specific industries, and to deliver ODM solutions to its OEM customers on a modular and collaborative basis. In addition to BFIH's well-established EMS capabilities, which mainly comprise manufacturing and assembly services, it is building the capabilities to provide OEMs with a comprehensive, vertically integrated "one-stop" solution comprising a range of ODM services from product design and development, component manufacturing and sourcing, logistics, and after-sales services. With expansion of service offerings BFIH will be able to further reduce manufacturing costs, improve supply chain management, reduce inventory obsolescence and product fulfilment time, and meet their time-to-market, volume-to-market and time-to-money requirements. For example, BFIH has started mechanics services for feature phones and is building the capabilities to provide mechanics services for smart phones, which reduces dependence on third-party providers and provides it with greater bargaining power, for a key component in the mobile phone manufacturing process, assisting mobile phone OEMs with their time-to-market and time-to-volume requirements. In this regard, BFIH intends to deepen its localisation strategy to manufacture and source components and other inputs, thereby reducing dependency on imports and hedging against the risk of global supply instability.

BFIH also intends to invest further in its R&D capabilities, which are integral to its vertical integration strategy and its ability to offer OEMs a broad range of services across the ODM value chain. BFIH is focusing on building design and product development capabilities, which will enable it to become involved at an early stage in our OEM customers' product lifecycle and position it to capture other parts of the ODM value chain, such as component manufacturing and sourcing, assurance and testing services and after-sales services. In furtherance of its R&D strategy, BFIH continues to deploy and its localisation program and recruits a number of hardware, mechanical, industrial and software design engineers, with the aim of building a strong local product design and development team by the end of the financial year ending 31 March 2024. This team will enhance the capabilities of its existing R&D resources, which are based at its R&D centre at IIT (Madras) Research Park, R&D centre in Bengaluru and the engineering team that is located at one of its manufacturing facilities. We also intend to develop collaborations and joint R&D programmes with the in-house R&D teams of our OEM customers, as well as external research institutes and universities. The recruitment, training, talent development and retention of skilled and experienced management and employees are essential to enable BFIH to deliver high quality services to our customers. BFIH continues to provide its workforce with training and development programmes, including external vocational and skills training. As part of its ESG initiatives, BFIH will continue to recruit and promote women in our workforce. Its environmental initiatives include the integration of sustainable practices in its business by building green capabilities, managing water consumption and monitoring our CO2 emissions. BFIH continues to adhere to the required standards of environmental compliance in our operations (including ISO 14001:2015 certification for environmental compliance management systems), and strives to ensure ESG adherence across its business and supply chain, thereby also assisting its OEM customers and

their ultimate consumers in their ESG objectives and aspirations. Lately, higher prices of smartphones and general inflationary pressures are slightly hurting demand for the devices in India. Also, there are some signs of the replacement cycle going up, meaning consumers are keeping their current device a little longer (compared with 2019/20) and delaying the purchase. First-time smartphone buyers are unable to enter the smartphone market due to higher costs of acquiring a smartphone spurring a slowdown in conversion of feature phone users to 4G/5G smartphones. But second half of 2022 is expected to be better than the first, as smartphone vendors and retailers go all out with discounts and financial schemes to boost sales in the all-important festive season in the October-November period that typically accounts for a third of annual sales.

BFIH is keen do export business as BFIH's location in India provides it with a geographical advantage and enables it to deliver products to local markets in those regions quickly and at competitive cost. In furtherance to its export strategy, BFIH has already started exporting some feature phones to the Middle East for our customer and is also exploring opportunities to collaborate with mobile operators in Europe and the United States, with a view to exporting mobile phones and hearables that they can offer to their network customers. In addition to mobile phone and hearables exports, BFIH intends to explore other opportunities that global OEM customers present as part of their own strategy of geographic diversification in their manufacturing and supply chains, and which leverage on the geo-political advantages that India offers. BFIH expects that the Production Linked Incentives (PLIs) that it is eligible for, as well as certain duty remission policies for exports, will further enhance its export opportunities. It intends to explore the benefits of the Mobility in Harmony (MIH) Open EV alliance at the global level for product development and exports. The key short-term objective of the telecom and networking products BFIH is to gain market share in EMS services of this industry as well as explore opportunities to export our telecom and networking products.

BFIH received final observations from the Securities and Exchange Board of India (SEBI) on 10 June 2022. In SEBI's parlance, the final observations imply that BFIH can file a red herring prospectus with SEBI and such other authorities as may be required and subsequently launch the Initial Public Offering (IPO). The proposed IPO of BFIH comprises a fresh issue of equity shares aggregating up to INR25,019 million and an offer for sale aggregating up to INR25,019 million by its promoter Wonderful Stars Pte. Ltd. (a subsidiary of the Company, incorporated in Singapore). It filed its preliminary IPO papers with SEBI in December 2021. Going by the preliminary IPO papers, the proceeds of the fresh issue will be used for funding capital expenditure requirements of BFIH towards expansion of its existing campuses, investment in its subsidiary incorporated in India, Rising Stars Hi-Tech Private Limited for financing its capital expenditure requirements, for funding working capital requirements of BFIH and general corporate purposes. Further, BFIH also filed an addendum dated 21 June 2022 with SEBI and the Indian stock exchanges to provide updated restated financial information of BFIH as at and for the financial years ended 31 March 2022, 2021 and 2020 and other key material updates.

Vietnam Operation

There is a growing trend of electronics manufacturing migrating into Vietnam. This brings ample opportunities to our Vietnam site Fushan Technology (Vietnam) Limited Liability Company (a subsidiary of the Company, incorporated in Vietnam) ("Fushan") to diversify its business as more and more customers are approaching Fushan with wide a range of products,

from home appliances, feature phones and smart phones, car accessories, EV projects, tablets etc.. The business diversification route of Fushan started in early 2019, from manufacturing traditional mobile phones to more complicated smartphones, smart speakers and IoT modules. For further diversification and utilising the new opportunities, Fushan has expanded its business licenses, acquired relevant processing certifications and placed further investment to improve the skills of its existing experienced workforce. The factory also aims for further diversification of customer focus and operation efficiency elevation to increase its competitiveness to the next level. Recently, Fushan has started its own sales operation to capture the local and international business opportunities. After two and a half months of applying such new business model, the factory has received great and promising responses. Fushan is bravely taking this one-of-a-kind opportunity to establish another milestone, ready to face any adverse challenges for business growth in the future.

(II) Diversification

In particular, the Group has been engaged in 5G, IoV (Internet of Vehicles) and AI (Artificial Intelligence) since 2019 for building up the Internet and the mobile ecosystem, actively expanding the Group's participation in the relevant product and service segments of the 5G, IoV and AI businesses through the utilisation of the Group's expertise and experience and core competencies in providing its innovative software design and hardware development services as well as wireless communication and information exchange technologies in support of the development of such business segments together with ancillary networks and ecosystem. At the end of December 2021, the Group's subsidiary, Mobile Drive Group ("Mobile Drive") became jointly owned by the Group and Stellantis N.V. ("Stellantis"), one of the world's leading automakers and a mobility provider, combining with wide resource and solid experience from both sides, Mobile Drive leveraged its expertise in wireless communication and automotive industry to focus on the software and hardware integration to develop a smart cockpit solution for in-vehicle infotainment system. With that, Mobile Drive's respective financial results, assets and liabilities has no longer been consolidated into the Group's financial statements and the share of profits/losses has been accounted for by equity method in the Group's consolidated financial statements. However, the Group has become the strongest anchor partner for the joint venture to provide all the supports from the hardware manufacturing side. The Group is currently working on restructuring part of capacities to pass automotive functional safety certification. Through activating and optimising the current manufacturing capacity, the Group does not need to made heavy capital investment but develops the automotive products as customers' requirements at the same time. The Group utilised the past experience in information and communications technology industry and emphasised in automobile communication parts, mechanical parts, components and PCBA. Most importantly, as being a subsidiary of Hon Hai and one of the members of MIH platform, which is a consortium established by Hon Hai and aiming to create an open EV ecosystem in the entire mobility industry, the Group's parent company would see the Group as its major supplier and bring more collaboration opportunities through its car assembly business.

As business spans multiple end markets, the Group strives to provide its customers on a global basis with not only product development and manufacturing support and solutions, but also vertical integration and a full range of cost-competitive services including repair services on a global basis. The Group's repair services provide comprehensive capabilities of return management and services and product repair/refurbish solutions in mobile device industry.

The repair service centers are proximity close to market and are scalable with ability to ramp up in a rapid manner and end-to-end manufacturing capabilities allow the handling of high-mix-low-volume customers. The Group believes that this strategy differentiates the Group from its competitors and will help to support its customers' products during their entire life cycles and reduce the lead time required to ramp up the production and bring the products to the highly dynamic and competitive market and fosters long-term business relationships with customers. This can allow the customers to successfully navigate through difficult economic times such as the current COVID-19 pandemic and global economy slowdown. The extensive global expertise provided a solid foundation for serving existing and potential clients disregard national boundaries.

Key Relationships with Customers, Suppliers and Employees

Key Relationships with Customers

Apart from offering production sites in different countries, the Group's strategy and business model are to work with the customers to provide holistic services from the initial concept design stage up until the end of the production process managing all aspects of sourcing, development and production start-ups and assembly and services of phone and provide a complete range of cost-competitive and vertically-integrated global supply chain solutions of various volume for its customers. Such initiatives accelerate production start-ups and efficiently bring new products to production and can help accelerate product time-to-volume and time-to-market and scale production for quickly changing customer demand. This also enables customers to leverage on the Group's supply chain solutions to meet their product requirements throughout the life cycle of their products and allows new products of customers to be launched to the highly competitive marketplace in an accelerated time frame and reduces the cost required to deliver higher quality products to market and cycle times of their supply chain and the working capital requirements associated with carrying inventory and total cost of ownership. We can leverage our supply chain practices globally to control materials costs, minimise lead times and improve our planning cycle to better meet volatility in customer demand and improve asset utilisation and inventory levels. Rapid changes in technology and craftsmanship, evolving industry standards and requirements, handset market landscape, consumer behaviour, and requirements for continuous improvement in products and services have resulted in shorter product life cycles. The Group secures front-end trends by working closely with supply chain and suppliers (including Hon Hai Technology Group via vertical integration), managing both procurement and inventory and quick response manufacturing services and creating win-win for both the Group and customers by developing practical and total solutions which can enhance competitiveness of customers via continuous interaction with the materials marketplace. We operate flexible manufacturing facilities and design our processes to accommodate customers with multiple product lines and configurations. All these help to maintain the Group's long term relationship with customers and expand these relationships to include additional product lines and services. Such repeatable execution driven by a collaborative and customer-centric culture that continuously evaluates and optimises our business processes and adapts to ever-changing macro-economic conditions provide clear value to customers. But because of outbreak of COVID-19 and in particular the resultant component supply instability and supply chain chaos and Ukraine war and the escalating inflation, prolonged handset replacement time, end market demand becomes uncertain and volatile and our customers are more cautious in their demand planning and

demand visibility is greatly shortened and this makes it difficult for the Group to schedule production and shipment and resources planning and maximise utilisation of our manufacturing capacity and to estimate order book with reasonable certainty and yields and efficiencies are greatly affected and margin erosion pressure continues to be extremely high. For details, please refer to the section of "Impacts of COVID-19 and Supply Chain Instability". As long-term partnership and relationship have been established with customers, the Group is able to communicate effectively with the customers and accelerate manufacturing whilst meeting specifications and quality requirements from customers. At the same time, the Group has been consistently putting effort on improving operation management, cost effectiveness, process and efficiency optimisation, quick response manufacturing, lean manufacturing, quality management, research and development, streamlining production process to improve learning curves and yield, human resource management and talent development to deliver all projects and services in a timely and efficient manner. The Group is dedicated to continue to build competitive advantages that are core to our success and long term sustainability and this includes focuses on global deployment in India and Vietnam as mentioned above, competitive costs, superior quality and customer service, continuous dedication of resources to R&D competence building, and enhancement of end-to-end service offerings, talent development especially in R&D and industrial design and engineering capabilities, rapid and shorter product development cycles, use of new material and technologies and solutions that are environmentally friendly, ability to design for large-volume and low-cost production, and control of multiple production inputs through our vertically integrated operations. Given that the industry is dominated by consolidated significant players and in cases where the Group is going to develop new smaller customers, it would be difficult for the Group to develop new customers that have similar business scale as the Group's existing major customers and would to a certain extent affect the Group's bargaining power. Further, it takes time to develop new customers and for the Group to gear up its production facilities to produce products and provide services that are customised for new customers. In cases where the Group switches to or adds new customers, it typically takes the Group approximately 2 to 10 months to customise the Group's production facilities depending on requirements of customers, delivery lead time, the complexity and sophistication and volume of products and technologies needed and associated business models.

The Group has to be innovative and devoted resources to keep pace with technological changes in the industry and adapt our services so that our customers can use better solutions in their products. We have a high performance, accountable organisation with a talented and engaged workforce that is deeply passionate about driving growth through excelling customer service and offerings. But there has been more than usual pressure on pricing coming from the largest players in the industry fighting against the deteriorating trend in market share development and prolonged replacement cycle time and all of the Group's customers have been facing challenges of various kinds, both operational and financial and winning business is subject to lengthy, competitive bid selection processes and we have to dedicate significant development expenditures and engineering resources in pursuit of a single customer opportunity. In light of sharp decline of handset demand, customers which own manufacturing facilities and capabilities may reduce outsourcing so as to optimise its own capacity utilisation. Customers may fail to successfully market their products, and customers' products may fail to gain widespread commercial acceptance and customers' products may have supply chain issues (including as a result of COVID-19 pandemic and China's dynamic zero-COVID policy and reshoring plan) and customers may experience dramatic market share shifts in demand which may cause them to lose market share or exit businesses. On the other hand, the

core business of one key customer is not in mobile phone sector and any change to the business strategy of this customer may affect the Group's sales to this customer. But this customer has been very successful with the new products launched to the market. In terms of the Group's original key Chinese customer, since 2020, it has been weighed down by U.S. blacklisting destroying its smartphone sales. In November 2020, the customer spun off the sub-brand to Shenzhen government to let the brand exempt from U.S. sanction and enable to purchase 5G chips and other components. Until now, this customer's smartphone business still struggles to survive through selling 4G smartphone in the domestic market. According to IDC data, the mobile phone shipments of this customer faced a 53.4% decline in the first quarter of 2022 with a drastic volume drop to 6.9 million units. As a result, the company has no longer been the Group's top 5 customers, and afterwards, we would not put its detailed information in our interim/annual report. The Group has made concentrated efforts to continue to explore opportunities in new projects, new products, new industry sectors and new customer development in different countries on the solid foundation of existing products and service offerings and domain expertise and customers. Confronting more diversified product lines and customer demands, the Group will deliberately enhance the core competence and differentiate us from our competitors by means of keeping pace with technological changes and competitive conditions in OEM and ODM industry, effectively adapting our services as our customers react to technological and craftsmanship and market changes and competitive conditions in their respective market segments, optimising and streamlining production and lean manufacturing process, improving responsiveness and flexibility and yield, magnifying efficiency, escalating automation, executing solid cost-control measure and cultivating talents.

The replacement/upgrade cycle of smartphone has further prolonged in mature market such as America and Western Europe which is due to limited product and development innovation and a lack of product differentiation, smaller and narrowing gap between high-end and low-end models, and the longer duration of smartphone usage. Customers become more selective and have less intention to purchase a new handset as the old phone is still usable and the new-released models don't have good innovation or give more attractive features. In order to induce replacement demand from consumers, global handset makers believe that it is essential to ramp up their launch of smartphones of new form factors (e.g. foldable handsets) or diversify into products boasting new hardware (e.g. extended reality (XR) functionality). Rising inflation triggered by U.S. previous QE and Ukraine war would have an adverse effect on people's disposable income, which would likely further prolong the replacement cycle in the smartphone market. As market volatility increased a lot and end customers become more price sensitive and reduce discretionary spending, demand dropped significantly and all these unfavourable factors have intensified the competition of the global handset market and our customers are more cautious in their demand planning, cash flow management and demand visibility is greatly shortened. As the margin of the customers are reduced, they are prone to cut the prices of the handsets we sold to them and margin erosion pressure on us is extremely high. At the same time, the Group has been aggressive to get more orders in order to optimise utilisation. If production volume is low, we generally have unabsorbed manufacturing overhead costs which will affect gross profit. The short-term nature of the Group's customers' commitments and demand visibility and the rapid changes in demand for their products reduces our ability to accurately estimate the future demand and requirements and the timing and order book of our customers. This makes it difficult to plan and schedule production and shipment and hiring in an efficient and cost effective manner so as to optimise utilisation of our assets and workforce and capacity and at the same time fulfilling orders. In that regard, the Group has to control overheads and inventory level and open purchase order exposure and remain lean but agile and

streamline production processes and monitor closely market and competition landscape and business model and labour availability and contribution margin performance of the orders and credit position of customers and communicate well with customers and determine the levels of business that the Group can take. For example, the Group has been controlling business amount with HMD Global Oy ("HMD") to control credit exposure. Due to inflation's broad and profound influence, it is not yet possible to determine the extent of its effect on the global smartphone market, but there is indeed a high risk of downward revisions in the future. In light of the handset market saturation, the Group has intensified its focus on technology innovation and manufacturing efficiency and productivity to ensure user experience and quality 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, offering customised services and flexibility to customers, and creating customer delight and satisfaction among passionate people engaged in a world-class manufacturing environment, and continues to prolong, develop, penetrate and foster closer relationships and partnerships with them for mutual benefit of the Group and such customers in the long run and secure optimal utilisation of manufacturing equipment and facilities and leverage talents of the Group. The Group believes its long term business relationship with major customers are the result of the Group's track record of meeting commitments in quality and delivery and delivering the core value and services which are crucial to the increase of customers' competitiveness in the growingly difficult and competitive market.

From Enterprise Risk Management (ERM) perspective, the Group has been operating in a highly competitive and dynamic market without growth a sustainable business with a well-balanced and diversified portfolios from a customer and product and geographical diversification perspective and is looking for continuous improvement all the time with ample resources dedicated to competence building and R&D capability. The Group changed its head office from Langfang, China to Taipei with effect from 26 March 2021 as the Group continues to focus on and expand its operation outside Mainland China.

Major Customers

The Group's major customers include top international brands. The Group's top 1 Chinese customer initially focused on its domestic market, capital, technical and know-how advances, but in these years, the customer has shifted focus to global expansion. As a result, the Chinese brand has become extremely successful in different countries and markets (like India and other developing countries especially Central and Eastern Europe and Southern America). Similarly, the Group is also helping our other customers to manufacture products out of China. The movements and strategies contribute to mitigating the Group's risk of the reliance on single region and market, as well as avoiding the overhang political issue between U.S. and China. However, the customers continue to face several unavoidable macroeconomic problems inclusive of the outbreak of the COVID-19 and surge in Omicron-related infections globally having made the electronics industry under pressure owing to the unpredictable COVID-19 bursts from time to time which have caused forced city lock downs, social distancing, tighter border controls, lower movements within continents and across borders, logistics chaos, supply interruption, component shortage, and lack of sufficient workforce across the globe were impacted to a certain extent. Moreover, the Ukraine-Russia warfare which also disturbed the world's supply chain and the surging inflation rate across all countries together with

quantitative tightening policy have pushed up the risk of economic recession in the globe. On the demand side, under the difficult economic situation, customer preference has been changed to saving more money to support the growing living cost; in other words, the demand in durable goods including consumer electronics declined in the recent months which was the most impactful reason to worsen the Group's customers' business performance, yet, they expect to be recovered once the new models released in the second half of this year. The Group relies on a relatively small number of customers for a substantial portion of our sales, and performance of our customers in the end markets could reduce our shipment performance.

The Group's strategy has been establishing and maintaining long-term business relationships with leading companies with size and growth characteristics and seek to expand these relationships to include additional product lines and services, continuously developing and penetrating Chinese and international brand customers, putting efforts to grow and diversify its lineup, and expanding its production capacity in India and Vietnam in previous years in order to meet the needs of customers to develop markets overseas and we have been successful to capitalise on the growth of domestic market in these countries and have continued to actively develop new customers of different industries in India and diversify both customer and product base. In addition, to reduce concentration risk, we focus on identifying and developing relationships with new customers that meet our targeted profile, which includes financial stability, need for OEM/ODM services or turnkey manufacturing, growth potential and long-term relationship stability.

With supply chains stretched thin, with backups at ports and China's zero-COVID policy, some customers have been asking to move some of the production out of China to reduce reliance. Nearshoring happens when a customer decides to outsource work to companies that are less expensive and geographically closer to their end markets. Some U.S. customers are asking to manufacture in the States/Mexico. The Group believes that maintaining a global footprint and expertise and regional capability are vital to reduce obsolescence risk and maximise cost competitiveness whilst simultaneously retaining the capacity to supply products and services around the world at comparable quality, and mitigating supply chain risk and improving overall production efficiency and diversifying country risk whilst providing customers the ability to quickly adapt to external ever-changing regional, trade and manufacturing dynamics. The customers are also growingly demanding a board range of manufacturing solutions and services globally and at the same time transitioning to regional support in local areas to take advantage of time to volume and time to market and specific customisation as this is key to their winning in those markets. This expansion and customer and product diversification effort and vertical integration strategy and service offerings (in particular ODM services) will continue with larger expansion expected in India with huge domestic market in coming years.

In addition, the Group's focus on expanding its customer portfolio and identifying and developing relationships with new customers that meet the Group's targeted profile, which includes good market growth potential, the need for manufacturing solutions on a global basis, viability, financial stability and long-term relationship stability can reduce concentration risks. But it is a fact it is growingly difficult to develop new customers of large or significant size and the time needed for new customer development can be very long and this is why the customer portfolio of the Group includes some small customers and the Group has put tremendous effort and resources to expand overseas and there have been some successes. In 2021, the Group has devoted resources and effort to build up R&D capabilities for mobile devices, especially for

cellular embedded products and the Group succeeded to break the ice on entry into U.S. market in 2021 and gradually developed some new overseas customers there and manufactured products including mobile phones, cellular embedded tablets, cellular embedded routers and data modules. This product line kept contributing a certain amount of sales to the Group in the first half of this year and expect to be a growth driver in the future. 5G products are gaining more momentum as the U.S. operators are promoting more 5G services and 5G products are becoming more affordable as chipsets for mid-to-low tiers products become available and the Group is seeing more 5G products in our shipment portfolio based on the momentum. Based on the momentum built from 2021, the Group continues to obtain project wins in different U.S. operators. The Group continues to improve its R&D engineering capabilities in cellular modem, antenna, radio engineering, software development, mechanical & thermal engineering, system integration and testing, operator network customisation and testing, etc.. The Group designs and manufactures multiple products for U.S. customers including mobile phones, cellular embedded routers, etc.. In particular, 5G is growing in demand and the Group can leverage this trend to earn more business in this segment. Given our initial success in top tier U.S. operator business, we see promising opportunities for more U.S. operator business and expansion of more product portfolios. But of course, it needs time to gain volume and synergy and the competition is very fierce.

Major customers include:

(i) This key Chinese customer of the Group could not be insulated from the challenges. The entire mobile phone market faced a headwind and reported a year-over-year decline due to the ongoing supply and logistical problems, surging inflation, and diminished consumer demand, coupled with the lockdowns in Shanghai in the second quarter, which are exacerbating the difficult situation. According to IDC reports, the customer shipped globally 79.4 million smartphones in the first half of 2022, down by 21.9% compared to the last period. Correspondingly, the mobile phone revenue of the customer declined by 11.1% to RMB45.8 billion in the first quarter. In the major domestic market, it was unavoidable to face a downturn. The shipments of its mobile phone in China decreased by 20.0% to 21.5 million units in the first half of this year resulted from the similar challenges mentioned above. Its president and partner explained the root cause of the decline in its first quarter results earning call quoting the shortage of the entry-level SoCs in at the beginning of this year and took a cautious tone about uncertainty with the macroeconomic environment, the political and also geo-political environment in the second quarter. Thankfully, helped by its global expansion and fast market penetration strategy, the customer reported a growing smartphone shipment in the specific regions of Latin America and Western Europe in the first quarter.

(ii) In relation to the Group's continuous fostering and development of long-term relationships and partnerships with a diverse base of customers, the Group entered into a collaboration with a U.S. based Internet customer who is one of the most innovative Internet companies in the world. This customer has been trying to catch up to competition by providing better user experience of integrating hardware and software and keeps on investing core technology on AI so that they can compete in the next generation of smartphone which is AI computing on Mobile. This customer has high-end product lines and mid range product line. The Group mainly developed and manufactured the high-end models and shipped the phones to all geographical segments of the Group.

(iii) Ensky Technology Pte. Ltd. (“Ensky”) is the customer which the Group has been manufacturing consumer electronic products such as eReaders and tablets, and voice interaction products for a sustained period of time and the Group is now its strategic supplier due to the Group’s strong engineering capability satisfying the customer’s requirements and expectations in terms of the ability to ramp up production in a reduced timeframe while achieving very high yield rate. Ensky is a trading company which has a long-established relationship with U.S. customers and sells consumer electronic products to them. There has been very strong market demand of eReaders and voice interaction products as one of the Ensky’s U.S. customers has been growing very fast and dominant worldwide. The sales to Ensky are grouped under Asia segment as Ensky is a Singapore registered company. Ensky was acquired by Hon Hai on 1 January 2020 and became a wholly-owned subsidiary of Hon Hai and a connected person of the Company pursuant to the Listing Rules. Due to the change of its business model, Hon Hai has gradually changed the buying entity from Ensky to other companies in Hon Hai Technology Group since 2022.

(iv) Sharp Corporation (“Sharp”) is a connected person of the Company pursuant to the Listing Rules as it is an associate of Hon Hai, the ultimate controlling shareholder of the Company. Sharp offers a variety of electronic products including smart phones, home appliance, displays and other IoT devices. The selling markets of the customer have been narrowed down to Japan which is its home market, and Taiwan in these years, but Taiwan’s volume only accounts for less than 1% of its total shipments. Although the whole Japanese smartphone market reached a mild growth in the first quarter, Sharp’s phone volume went down by 41.7% due to the ever more intense competition. Another two phone vendors released new products and acquired Sharp’s market share substantially. According to IDC data, in Japan, Sharp’s ranking fell from top 2 to top 4 with 12.3% of market share, down from 22.1% in the same quarter of last year. In order to explore additional business opportunities, Sharp has started to offer other electronic devices such as MiFi router and tablet with the help of the Group’s R&D resources and capabilities. Moreover, responding to the trend of environmental sustainability, Sharp has been focusing on leveraging recycled plastic materials to develop mobile phone’s components in these years, which also impelled by the Group’s resources.

(v) HMD is an independent Finnish company. The company are the only major European smartphone provider distributing Nokia phones and tablets to the world. In addition to their devices and accessories, HMD offers a suite of services for enterprise customers. HMD reached the top 5 position for mobile phones in more than 41 countries in 2021, up from 35 countries in 2020. At HMD, they work to a really simple idea: providing accessible connectivity for everyone. The company is driven by the needs of their customers and the three things customers ask for from their phones — products and services they fall in love with, they trust are secure, and can keep for a long time. HMD calls it the ‘Love it, Trust it, Keep it’ principle, and it defines everything they do.

2022 continues to be a challenging year for businesses across the globe against the backdrop of the COVID-19 pandemic impacting supply availability and component pricing, the Ukrainian conflict and demand softening due to inflation. Navigating continued material shortages and uncertainty has not been easy. Started by supply crisis triggered by factory closures and amplified by labour shortages during extended COVID-19 measures broke down logistics system. This supply shortage drove prices up in unprecedented levels especially on handset industry. This got worse by Russia

attacking Ukraine and taking oil, gas and wheat as weapon towards rest of the world. This leads huge channel inventories and supply chain liabilities on its competition which will manifest itself in aggressive promotions and price reductions to reduce inventories and liabilities in supply chain. Cash will play big role on this because supply chain is highly leveraged and sudden drop of shipment will lead to credit crunch. HMD will see new balance when sell in will ultimately catch up the sell out. Pricing promotions will disappear when companies start optimising profits at new level of business. Risk is that supply chain does the same it did during COVID-19 and artificially reduces supply to get prices up. Other risk is that world moves into longer period of high inflation. This would keep all the business lower in output and focusing on margins once the supply chain liabilities are removed. This will lead into consolidation of business and big movements in weaker economies. HMD must continue reading market carefully, especially movements of its competition, to understand the status of market inventory and liability because it will define how market will recover from current turbulence.

Despite these challenges, the HMD 800 plus international team has come together and delivered in what has been a uniquely trying time. While the mobile phone market globally declined in the first quarter of 2022, HMD continued to deliver year on year growth. HMD announced their largest U.S. expansion since they launched. Responding to the needs of their customers, the new 2022 line is the largest range yet of five accessible and affordable Nokia smart and feature phones. This expansion is in conjunction with five major partners in the U.S.. In February, HMD bolstered their affordable and accessible global portfolio by announcing two new devices in their G-range and three new devices in their C-range smartphone portfolio. These phones are built to last longer and combat low battery anxiety. HMD's services business saw significant growth in number of subscribers and scale in 2022 already. This marks an inflection point in the scale of HMD's connectivity, EMM, IoT and security offerings and positions the company for greater penetration into the enterprise space in the coming years. The growing number of subscriptions are split between core products (Connect Pro, Enable Pro, Softlock and 4th year security patches) and are made up of IoT connections, EMM licences, device lock licences and software security updates. Customers have utilised HMD services to give them the flexibility to rapidly scale their operations and drive business growth.

HMD believes in bringing people together without costing the earth. They are proud of their heritage as a Finnish company with a long-standing commitment to sustainability, and a track-record for robust, long-lasting devices that do not end up in landfill. In 2022, HMD continue to integrate their sustainability management system into their business strategy, focusing on four key areas: environment, labour and human rights, compliance and sustainable procurement. To ensure meaningful action is taken, they have a suite of policies and measures and are developing key performance indicators that will track progress across the business from this year. In recognition of these efforts, HMD have been accredited with the ISO 14001 environmental management system certification and received a Platinum medal by EcoVadis in 2022 (up from Gold in 2021). This puts HMD in the top 1% in its industry for our commitment to sustainable practices.

Referring to above, one of the top five customers of the Group is the Hon Hai Technology Group (to which Ensky and Sharp belong). The revenue derived from the sales of goods and rendering of services by the Group to Ensky and Sharp in Hon Hai Technology Group accounted for approximately 6.06% and 10.47% of the Group's total revenue from the sales of goods and rendering of services respectively for the current period. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. Revenue attributable to the Hon Hai Technology Group accounted for approximately 31.21% of the Group's total revenue in the current period.

Amongst the Group's five largest customers during the current period which accounted for approximately 91.9% of the Group's total revenue and three of them have had long-term and well-established relationships with the Group for more than five years whilst other two have been the Group's customers for more than three years and one year. These major customers are not required to commit to certain minimum purchase value or volume from the Group over a period and we bid on a program-by-program basis and typically receive customer purchase orders for specific quantities and timing of products. Our customer-focused factories are flexible and can be reconfigured as needed to meet customer-specific product requirements and fluctuations in volumes. A majority of these supply agreements also require the customer to purchase unused inventory that we have purchased to fulfill the forecasted manufacturing demand committed by customers. Some of these agreements require us to provide specific price reductions to our customers over the term of the contracts. In the current dynamic and highly competitive handset industry with prolonged replacement line, innovation and enhanced user experience and product pricing and quality are paramount and loss of or changes in market position of any of these customers or their products in any region may materially and adversely affect the Group's business, financial condition and results of operation, especially in view of the concentration of its sales to these customers. In addition, if one or more of our major customers were to become insolvent or otherwise become unable to pay us on a timely basis, or at all, our financial condition could be jeopardised. The Group's reliance on major customers means that the Group's performance is directly affected by the performance and competitiveness and development of these customers and their outsourcing and offshoring or onshoring strategy in a challenging handset industry with a lot of OEM and ODM competitors and the Group pays attention to the change of market trend and end customer behaviour and external market dynamics and general economy and COVID-19 development and lockdowns and industry-wide component supply instability and supply chain constraint and logistics chaos and geo-political tensions. The current tensions on commodity markets and the consequent high prices are due to strong demand and a supply-demand mismatch exacerbated by the ongoing war in Ukraine. Economists have expected that the COVID-19 pandemic and Ukraine war and Russia sanction will lead to a slowdown of global economy and hyperinflation. This is why the Group has kept monitoring the current economic environment and market landscape and its potential impact on both the general economy and consumption power and preferences of customers the Group serves, as well as end markets. The Group continues to closely manage and control expenses and capital resources to remain lean and agile and maximise preparedness and the ability to respond in a quick manner as external circumstances and geo-political situation change.

The credit period granted to the Group's major customers (whether or not it is a connected person of the Company) ranges from 30 to 90 days, which is in line with those granted to other customers. The allowance for credit losses made for the current period was US$14.5 million (when compared to the allowance for credit losses of US$4.8 million made for the same period in 2021). Given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group have been deferred, the Group has increased its expected credit loss ("ECL") percentage for trade receivables during the current period. Due to the hit of COVID-19, soaring inflation, industry-wide component instability, border control and Ukraine warfare and keen competition and the business performance, some of the Group's customers including major customer like HMD which distributes phones to Europe and Russia and Africa may experience financial constraints and tight cash flow and the Group could have difficulty in recovering trade receivables, or can also result in reduction of demand for the Group's products and services from these customers. HMD is now raising fund and the Company is monitoring closely the progress and evaluate risk to the timely collection of trade receivable and collection of overdue account receivables and default risk and going-concern risk of HMD. Management expects the default rate will increase accordingly. The estimated loss rates are estimated based on historical observed default rates over the expected life of debtors and forward-looking information that is available without undue cost or effort. By referring to the Moody's default rate in April 2022, there is an increase in the default percentage and additional expected credit loss allowance was made for all overdue amounts of the Group. The Group also has some small customers and the exposure to financially troubled customers or suppliers may adversely affect financial results. The Company will continue to closely monitor the situation and cash position and payment of customers and control the volume of business with these customers and take necessary collection actions according to Company policy and make adequate allowance for expected credit losses arising from trade receivables according to requirements of relevant accounting standards. Management will regularly review to ensure relevant information about specific debtors is updated so that management can evaluate if adequate impairment allowance has been provided on those credit-impaired debtors which were evident to management that the debtors are in financial difficulty or trouble.

On top of phone manufacturing business, the Group also has a strong reverse logistics and repair/refurbish services function which offer global integrated solutions providing customers the end-to-end value-added manufacturing services and after-market-service covering the entire product life cycle with best-in-class quality, cost and ability to deliver. The Group's services include after-market management, repair/refurbish services, product asset-recovery, excess inventory on-line sales, integrated regional manufacturing, packaging, and fulfilling. Forward/reverse logistics and manufacturing expertise are provided by the Group to multiple product lines such as mobile phones, consumer/industrial drones, smart home devices, set-top boxes, IoT products, medical product, and automobile electronics and its customers including name brand OEM, mobile carriers and retail channels. The Group aims to keep growing fulfillment service and regional manufacturing services to automotive and medical and health customers and developing repair/refurbish service to medical industry. The core competencies which the Group upholds and demonstrates in this part of business are (1) strong core team with talents and expertise in the field of both EMS and after-market services area; (2) geographically central location advantage for logistic services and proximity location advantage of Mexico site for manufacturing strategies under trade war; (3) robust quality system and crucial certifications, like ISO 13485 for medical and IATF16949 for automotive; (4) high-mix-low-volume flexible support model and end-to-end business solutions, from design, production, fulfilment to after-market services; (5) comprehensive product engineering

capability; and (6) E2E (End-to-End), complete after-market service solutions and online-offline operation integrations, and customised service-models. The operations in the U.S. and Mexico have gradually recovered from the impact of COVID-19 to normal. However, due to global supply chain challenges lingering to 2022 and the unexpected war in Europe, material supply instability, inflation and logistic cost efficiency are impacting our operation sites. On the business of "Final Assembly Testing and Packaging" (FATP), Dallas operation site successfully launched a project in the first quarter with labeled "Assembled in USA" and the project will keep mass production operation through the whole year 2022. Driven by customers' "Made-in-north-America" and "Assembled in USA" strategy, we foresee more business opportunities for our North America operations. Both NPI associated costs and capital investment will be increased to satisfy customers' demand for the coming years.

Impacts of COVID-19 and Supply Chain Instability

In its initial months of 2020, the widespread coronavirus crisis severely disrupted the movement of people and goods worldwide, upending entire supply chains and this has had a considerable impact on the world's manufacturing industry. The severe and prolonged adverse impact of COVID-19 on the commercial activities due to quarantines, travel restrictions, business curtailments, resurgences and mutations of the virus and safety concerns had a material and adverse impact on global economy during 2020 and 2021. Manufacturing operations came to a standstill as most countries implemented lockdowns to curb the spread of COVID-19 and factories were forced to close or to operate on vastly reduced staffing levels, which left them at a fraction of normal output. At the same time, industries including hospitality, retail and travel have been affected due to the significant drop in consumer spending across the world. The collapse and subsequent surge in consumer demand during the pandemic has led to significant supply instability of manufacturing components, order backlogs, delivery delays and a spike in transportation costs and consumer prices. Things slowly picked up again in 2021 whilst there was global demand-inventories mismatch and some markets become booming since the vaccines has been widely injected. In 2022, China market saw a spike in COVID-19 cases again in the first quarter due to the contagious Omicron and China doubled down on its zero-COVID strategy. With provinces accounting for nearly a quarter of GDP under partial or full lockdown, the cost of China's zero-COVID policy is climbing. The sheer importance of China when it comes to global trade means that any small disruption in China, will have a ripple effect across the supply chain. On the demand side, slower and smaller demand implies an export shortfall of huge amount for the rest of the world whilst on the supply side, a sudden haul in China's industrial activity due to city shutdowns and restrictions on inland transport have sent shockwaves through supply chains and posed huge risks to global output. In addition, the disruption to trucking and freight infrastructure will increase delays in despatching cargo by air and sea and prolonged congestion in Chinese ports suggests that global delivery delays will likely to remain elevated throughout 2022, though they will remain below the highs seen in 2021. Continued supply-chain disruptions will create further inflationary pressure which are spread globally very quickly. Zero-COVID policy has been widely criticised because, being so strict, it tends to significantly stop economic activity, however, China authority responded to criticism that they prefer to avoid any type of human sacrifice. As long as China maintains this very strict zero-COVID stance, we cannot rule out a disruption time to time as the year progress. The current tensions on commodity markets and the consequent high prices are due to strong demand and a supply-demand mismatch exacerbated by the ongoing war in Ukraine. Though short-term

projections are filled with regional uncertainties, component supply instability are starting to ease, which relieves some cost pressure. Leading vendors will take this downtime to strengthen relationships with supply chain partners and their core product and channel capabilities to capture rebounding demand in the coming period of time.

Supply Chain Constraints

Material supply continues to be immensely influenced by continuing COVID-19 containment measures in China, by logistics congestion in both sea and air freight, and by long adjustment cycle in certain semiconductor sector, at the same time, product demand starts to be heavily impacted by inflation induced price hike, by monetary policy change in major economies, by Russia-Ukraine conflict and, simultaneously, by strict COVID-19 containment measures taken up in China. Market has become highly volatile in both demand and supply. Material supply began and continued to improve from beginning of 2022 in most commodities except certain semiconductor sectors, order lead time remained to be long, visibility and delivery fulfilment improved markedly. Product demand started to reveal sign of slow down right after Chinese New Year ("CNY") holidays, forecast for the year in our industry were significantly lowered by leading brands in China, as well by leading brands in U.S., and Russia-Ukraine conflict began to affect demand in Europe. The second quarter usually is the low season in the year in our industry, market sentiment can be overly negative than market may actually be.

Supply constraint in semiconductor will continue. Demand and supply adjustment in some commodities completed and some will require longer time to make needed adjustment, 8-inch wafer capacity unfortunately has been and remains to be the most sought after resource, depends on component size and technology, market has been and still is driving each of them to the optimal manufacturing capacity available, for those without suitable alternative, they remain at existing solutions and may continue to congest capacity, and supply can be improved either after new capacity comes online or demand drops down to level matching supply capacity. In addition, handset is competing same capacity that is supplying to cloud computing (server), automotive IC, etc., situation can be more complex and demand drop in handset does not exactly translate into better supply in our business. What have been tight on top of the list late last year remains to be challenging, namely main chipset and ICs made from certain technology process nodes are still tight in supply since fact of the matter is supply remains to be short of demand. It is clear, constraint in certain categories will carry on till end of 2022 or later.

Overall material supply improved further in the first quarter, signs of improvement began to show from high tier smart phone products in which higher priced, more sophisticated components are incorporated. Supply of those eased off first. Then there was sign in common components (e.g., passive), supply visibility became longer and more explicit. Pricing increase pressure in certain commodities dissipated and pricing in some began to move downward. Coincidently, some leading OEMs in the business have been lowering smart phone shipment forecast for the year after CNY holidays. Market has been earnestly anticipating better supply and less constraint in following quarters. 2G/4G chipset supply instability we've been experiencing in feature phone since 2021 had shown significant sign of improvement in the past months. Improvement in this sector is expected to continue in the third quarter of 2022. Nonetheless, 2G chipset supply can no longer be expected to be raised back to the level in 2020 or earlier, demand and supply in this product category will be mindfully maintained while a delicate balance within last few key players remaining in the sector is kept.

Price up momentum began to disperse from the first quarter, even consumer market softened further after CNY holidays coincided with demand forecasts were significantly lowered by leading phone makers, component pricing is not expected to move at same pace with market dynamics by the facts that runaway inflation hitting a four-decade high and turnaround is yet visible, very high energy/oil price driven by continuing Russia-Ukraine conflict, and both demand and supply disruptions fueled by continuing regular COVID-19 test to the population and a series of lockdown in China. Component pricing has started moving downward in the second quarter but certain commodities and certain EE components from certain suppliers. Chipset pricing has stayed at high level unchanged, certain EE components inclusive passive though came lower in low single digit percentage, they finally moved downward after over 4 quarters of rising trend.

Logistics service is the backbone of supply chain, capacity constraint at any one location causes similar impact as physical material supply constraint does. Recent logistics congestion arose from the fact that regional pandemic lockdown and additional safety measures undercut cargo handling capacity in transportation hubs drastically. Situation began to ease off over the last 6 months at cargo receiving ports in the western hemisphere as COVID-19 evolved and high vaccination coverage in the population offered the opportunity to bring businesses and communities back to quasi-normal life in the region. Challenge however remains at shipping ports, in the world factory, China. Given circumstances in the country, China authority continues its zero-tolerance policy against COVID-19, community/city/region is being locked down once COVID-19 case is reported and will only be cleared and opened after months long lockdown when no case can be found in continuous regular screening. This is a hefty price tag to be paid by China and the rest of the world. Congestion is now found at shipping ports, in eastern Asia, mostly in China. First incident came about between Vietnam and China border crossing cities, they were sealed at the beginning of the year, opened for short period of time, then they were sealed again, they finally are now partly open for limited traffic. Then came lockdown in Shenzhen and its surrounding area, and it is open from late March after weeks of lockdown. Later was lockdown to Hong Kong and China border, limited traffic. In perspective, lockdown and recovery in Pearl River delta (Hong Kong, Shenzhen and its surrounding area) have been swift and well panned and well managed by local authority, impact to manufacturing was rather limited and supply recovered quickly after lockdown was removed. Cross border logistics however remains a bigger challenge. Additional safety measures introduced by the authority required longer turnaround time and may certainly cut back on operational capacity. Logistics lead time was extended, and it costs more to ship.

More lockdowns were imposed in Shanghai, Kunshan, Suzhou and some inland cities recently as COVID-19 cases were reported in the region. At Yangtze Delta where two of the busiest seaports in the world are located, lockdowns limit operation capacity, create delay, and add costs. Manufacturing located in the region were disrupted, especially in semiconductor sector where supply continuity has been strained in the past years. Shanghai and the region have a sizable population, provided additional supporting containment resources were pulled in from all over the country to the region, recovery period is expected to be longer. Zero tolerance policy could prove to be challenging given highly contagious characteristic of the COVID-19 variant which has already been widely proliferated in the population. It could be very costly as opposed to typical containment guideline adopted by international community. Economy impact and influence on people's daily life will be massive if the policy persisted over longer period of time. Direct impact was limited to logistics delay when lockdown in Shanghai and

the region began in late March. Deliveries made from the region had been maintained through inventory left in suppliers' warehouse in April, manufacturing in some districts restarted in early May. Alternative sources outside the region were being evaluated and introduced while awaiting manufacturing in the region to be opened up in near future.

Current market volatility however limits forward visibility. To sum up, while moving into the second half of 2022, we are expecting clear improvement in supply except certain ICs made from certain technology nodes, pricing could be moving downward in some commodities on lower demand outlook in smart phone; inflation, monetary policy change in major economies, Russia-Ukraine conflict and continuing lockdown in China are apparent uncertainties along the way. As always, in manufacturing, material availability in full square kit is fundamentally essential, at which functionality or value of each component will not make a difference to production operation. If product can be manufactured into one and shipped in time is all that matters. With no doubt, maintaining demand supply balance with agility will be critically important to our success in 2022.

The recovery of the smartphone business will be a challenge in the coming quarters with the uncertainty of end demand, geo-political tensions, the continued outbreak of new variant of coronavirus infections and the supply chain disruption. All of these added to traditionally slow seasonal demand. The Group continues to put a lot of efforts to try to overcome the difficulties and put efforts to negotiate, discuss and arrange with its customers, vendors, suppliers, logistics partners to share the risks and reach mutual benefits and foster long-term relationship between the parties in the difficult time. In addition, there are also other challenging conditions that the Group has been facing since late 2017 have continued into 2022.

On this basis, it might not be practicably possible for the Company to reasonably and meaningfully make a quantitative measure of the impacts of the COVID-19 and supply chain disruption on the Group's financial or operational performance as many factors are involved. The ultimate size of the impact of the COVID-19 pandemic and component supply instability on the Group's business and its duration and severity will depend on future developments which cannot currently be predicted. These include infection resurgences and mutations, the duration of ongoing supply chain constraints directly and indirectly caused by the pandemic, the speed at which our suppliers and logistics providers can return to and maintain full production, the number of employees who may become infected, the status of labour shortages, geographic locations of any future outbreaks, actions that government authorities may take in response, the need for temporary factory shutdown and closures and "closed-loop management", the duration of the outbreak, the continued efficacy and availability of COVID-19 vaccines, the extent of the impact of the pandemic on our customers' businesses, and the impact of supplier prioritisation of backlog. Our ability to continue to manufacture products is highly dependent on our ability to maintain the safety and health of our factory employees. The ability of our employees to work may be significantly impacted by individuals contracting or being exposed to COVID-19. Even after the COVID-19 pandemic has subsided, we may experience significant adverse impacts to our businesses as a result of its global economic impact, including any related recession, as well as lingering impacts on our suppliers, third-party service providers and/or customers (including movement of production in country to decrease global exposures). But as the situation continues to evolve, the Group will continuously evaluate the situation and, where appropriate, announce material business developments and make appropriate disclosure about the impact on the Group's operations,

financial performance and financial position, and an assessment of the risks and impact on the Group's future performance to keep shareholders and investors timely informed.

(a) China

Small surges in infections prompted unprecedented stringent entire lockdowns of the country's largest industrial cities to limit the spread of the infection and this policy exacerbated labour and industry-wide material shortages in the intricate feature phone and smartphone supply chain and grinded supply chains to a halt and also threw cold water on demand and hit the most developed regions in China which are home to important industries and much of China's purchasing power. Manufacturing capacity has been severely restrained by the restrictive measures imposed in the big Chinese economic hubs, first in Shenzhen and then in Shanghai. In affected areas, manufacturing activities are usually either suspended or conducted under the "closed-loop" model, namely, workers living and working onsite, resulting in extremely limited manufacturing capacity. While many countries are now relying on vaccination and improved treatments, China has stuck to a policy of lockdowns and other restrictions. The WHO says that with more transmissible Omicron variants spreading, this approach is not "sustainable". But Chinese government has clearly indicated that zero-COVID policy will not change as it is "scientific and effective". A government statement in response to the comments by the WHO said that "China's huge population means that relaxing prevention and control measures will inevitably lead to the death of a large number of elderly people". It added that the current policy is "bringing COVID-19 under control at the minimum social cost in the shortest time possible". Achieving "zero-COVID" becomes more costly and difficult since Omicron is much more contagious than previous variants. Consumers and private firms are also "worn out" after years of living through the pandemic, and might be forced to reduce spending due to drying-up savings. To make things worse, China's export growth is likely to decline as other nations fully reopen, while foreign direct investment into the country might drop given the strict restrictions on travel, production and logistics. Lockdowns in China are not only affecting the provinces or cities concerned, but are also creating logistical bottlenecks domestically (e.g. due to stringent controls over trucks going across provinces and truck drivers were trapped and ports were snarled). This means that congestion in major ports is also visible, even though they remain operational. The lockdowns also affected availability of labour, suspended assembly lines, grounded workers, and deliveries of components and materials are delayed as result of logistic chaos. But closed-loop system of factories has the advantage that workers will then not have contact with the general public. Current market volatility limits forward visibility. What have been tight late last year remains to be challenging, namely main chipset and ICs made from certain technology process nodes are still under super long order lead time and tight in supply since fact of the matter is supply remains to be far short of demand. There are also added concerns over debt and a real estate bust which point to a slowdown in China's rapid recovery. China's strict "zero-COVID" policy is triggering economic disruptions that are rippling through global supply chains. City lockdowns also confined hundreds of millions of consumers at home. Some Chinese cities, including Shanghai, have recovered gradually and eased COVID-19 restrictions in June, but experts say that the damage has already been done, and global shipping will suffer well into the summer. That could exert even more pressure on global supply chains already reeling from Russia's invasion of Ukraine, and keep inflation running hot. As long as China maintains the very strict zero-COVID stance, we cannot rule out a disruption time to time as the year progresses.

COVID-19 outbreaks and the trade war between the United States and China starting from last few years have forced companies all over the world to re-evaluate their supply-chain arrangements and move from China, either to neighboring countries, such as Vietnam and India, or back to their home countries as part of a process known as "reshoring". Beijing's zero-COVID policy measures have prompted growing concern about risks of drags on the world's second-largest economy. The continuation of the "zero-COVID" policy in China accelerate the reconfiguration and the decoupling of the Chinese-centric global supply chain and multinationals are considering diversifying from China. While travel curbs in much of the rest of the world are easing as countries try to "live with COVID-19", China still strictly limits unnecessary foreign travel by its citizens, continuing an effective freeze that has been in place for the past two years. Although conventional policies such as credit easing might help, the real growth bottlenecks remain and adjustments to the "zero-COVID" strategy are key to a growth recovery. Companies have discussed moving factories out of China for years, especially since labour costs have climbed and U.S.-China trade tensions worsened. The pandemic has reignited those conversations. Some point to surging exports from Vietnam as an indicator that supply chains are leaving China. Supply chain diversification is quite tricky and often at the end of the day people find it's difficult to implement. The COVID-19 pandemic has meant that companies have had to build resiliency and flexibility into their supply chains. On the other hand, as the vulnerabilities of the once unquestionably reliable Chinese manufacturing supply chain has been exposed and sole sourcing from any vendor or vendors in one location comes with a high-risk level, companies are looking to accelerate "China Plus One" manufacturing strategies and to build redundancy into the supply chain at different tiers and to reinvigorate supply chain resilience within lower-cost countries with access to cost-effective, safe and stable supply chains and workforce and seek out closer-to-home or perfectly matched verticals with whom to do business. The "China Plus One" strategy has been studied by companies with China operations for several years but the motivation to change did not materialise until the trade war and pandemic. No one is deserting China and this is an approach that sees companies adding an option and move away from their reliance on Chinese manufacturing, but does not cut the country out completely. This strategy has seen countries such as Bangladesh, India, Indonesia, Malaysia, Thailand and Vietnam which have been emerging for some time as the natural next-stop for manufacturing reliant on low labour costs and pop up as a viable alternative for a lot of companies and position themselves as China Plus One options with incentives and grants and benefit from resulting investment flows. However, the supply chain crisis of the past two years shows this strategy may also be failing as many customers discovered static backup plans were not adequate to address the rapidly changing conditions around the world. As long as the goods produced are an ocean away from the markets that consume them, uncertainty from various disruptive factors can lead to shortages, higher costs, lower revenues, and customer dissatisfaction. These backup strategies of the customers may not be agile enough to be effective amid the complexities COVID-19 presented, so customers were challenged to get the level of service they needed from existing suppliers or quickly identify new suppliers, resulting in processes that simply were not feasible from an implementation or sustainable cost standpoint. No business is emerging from the COVID-19 crisis unscathed or without a seismic shift in their approach to risk and supply chain resilience. As a result, customer and segment revenue and mix and geographical performance, as well as overall earnings, may fluctuate. Countries with large number of domestic consumers would witness home grown manufactures of OEMs and ODMs,

mainly driven by initiatives of the respective governments. In the long term, if overall demand increases, market participants will be able to expand through technological investments. Thus, the impact maybe lower in the mid to long terms.

During COVID-19 outbreaks in some of China sites of our Group, two of our sites were temporarily closed and we implemented "closed loop" process that adheres to policies issued by the local government and the efficiency was affected. All these factors have contributed to the Group's variable production in its factories, which has impacted utilisation and efficiencies and yields and production scheduling and order fulfilment and given rise to associated costs which affected our operating margin during the temporary shutdown. But the company has succeeded to limit the impact of such adverse factors to operation.

The COVID-19 outbreak and geo-political crisis put pressure on the Chinese export-oriented economy to increase the contribution of domestic consumption to GDP of China. The Chinese policies has doubled down on the "Inner Circulation" part of the "Dual Circulation" strategy which aims to be more self-reliant for strategic supplies and has been China's key economic policy since the pandemic in 2020. This strategy aims to simultaneously stimulate the domestic consumption (internal circulation) and the international market (external circulation). The heavy focus on "Inner Circulation" gives foreign investors room to adopt a localisation strategy to seize the expanding Chinese market. After all, the critical goal of being self-reliant is not to become detached from the global economy but rather for China to maintain its export competitiveness by reducing the reliance on the overseas supply of strategic goods.

(b) India

As per the Financial Stability Report, June 2022 released by the Reserve Bank of India (RBI), the Indian economy witnessed a gradual but uneven recovery in the June 2022. It added that corporate sales and profitability have also risen, while a durable commencement of the capital expenditure (capex) cycle remains elusive. In the Indian economy, high-frequency indicators point to a gradual but unevenly strengthening recovery in the first quarter of the financial year ending 31 March 2023, in spite of headwinds from the geo-political situation, elevated commodity prices, especially of crude oil, and volatile financial conditions, as global spillovers endeavour to unsettle domestic financial markets with bouts of turbulence. It added that market risks are rising as spells of volatility are unleashed by foreign portfolio investment outflows and the sharp appreciation of the USD. Bank credit growth is picking up steadily, already clocking double digits. The report said, "The Indian economy appears to have weathered the third wave of the pandemic associated with the Omicron variant, although the war in Ukraine is now casting a long shadow on the outlook. While the end-May 2022 data release of the National Statistical Office (NSO) points to real GDP and major supply side categories in the financial year ended 31 March 2022 exceeding their pre-pandemic financial year ended 31 March 2020 levels, high-frequency indicators present a mix picture."

The "third wave" of the COVID-19 pandemic, which lasted from the end of December 2021 to the end of February 2022, had a more limited impact on our India operation compared to the "second wave" (started in April 2021 and continued until June 2021).

Despite the continued impact of the COVID-19 pandemic in 2022, revenue of our India operation increased sharply. The "first wave" of COVID-19 pandemic had resulted in widespread and prolonged lockdowns throughout India in March to April 2020 and for most part of the financial year ended 31 March 2021. Our India sites have since then implemented a number of measures focused on the health and safety of its workforce. Most important of all, it has completely vaccinated its workforce. Whenever the threat of subsequent wave of COVID-19 emerges, site management asks its employees to start a daily survey on a mobile app which contains simple multiple-choice questions regarding the employee's health status and symptoms, and other related information. The survey is designed to protect the safety of our employees and their families, maintain overall productivity, increase trust, and improve connectivity. Sites regularly tracks and verifies its employees' health and well-being through reports generated by its COVID-19 Support Centre.

Regarding material and component supply, globally material supply constraint has been easing since the first quarter this year, and demand in other consumer electronics sectors had dissipated since late last year, work from home (WFH)/work online demand came down as well. But during the first quarter of 2022, raw materials were found waiting on the production lines as our India operation faced supply instability of materials, components and other inputs caused by supply challenge coming from lockdown in Shenzhen and constraint by selected suppliers. In addition, there has been a significant amount of stockpiling of semiconductors and integrated chipsets by OEMs in various sectors. While our India operation has bounced back sharply, it is still grappling with supply side issues such as supply instability of chipsets and it continues to be dependent on the global integrated chipset supplies stabilising in the near term. Supply instability of components, particularly integrated chipsets, are expected to last at least until the end of 2022 which will have a mild restraining effect on BFIH's operations and revenues. Regarding logistics, the scheduled international flights were to commence from January 2022 however the emergence of Omicron threw a spanner in the plan and the government withdrew the decision to resume scheduled international. As Omicron variant subsided, travel restrictions were lifted and the scheduled international flights started operating from March 2022.

(c) Vietnam

Vietnam is one of the most promising land for next industrial boom and has been one of the world's fastest growing emerging markets in the past decade which is boosted by strong foreign direct investment inflows into its manufacturing sector. Rapid growth of manufacturing exports and large new inflows of foreign direct investment have been important growth drivers for Vietnam, notably driven by rapid expansion in the textiles and electronics sectors. The deep integration of Vietnam's economy to the global was hit by the ongoing COVID-19 pandemic, which posed downside risks to Vietnam's economy. The country had a positive start in 2021 when business opportunities have arisen thanks to Vietnam's geo-political advantage and adoption of China Plus One strategy by firms and the impact from the U.S.-Sino trade war.

The impressive vaccination drive and accommodative policies which relaxed movement restrictions domestically and internationally have prompted a strategic shift towards living-with-COVID-19 which will help Vietnam economy to rebound from a severe

pandemic wave in 2021 and achieve an estimated growth of 6.0% in 2022 despite such strategy saw a surging number of infected cases across the Northern Vietnam and the Group's site in Vietnam — Fushan was also impacted despite its firm COVID-19 prevention actions on site. Up until March 2022, the sheer volume of infections in the Omicron wave in first quarter has led to disruption. As there was a relative lack of restrictions and lockdowns and temporary company closures, a lot of companies had been able to resume production despite the spread of the virus and the impact resulting from the Omicron wave has not been as severe as prior waves of the virus and output declined at a much softer pace than in the previous wave. Fushan has coordinated with the government and strictly followed the guidelines to mitigate the risks. Employees went through regular Antigen and RT-PCR tests and were also supported with personal protection kits. Fushan also worked closely with government agencies to deploy regular vaccination campaigns to protect its employees and also to ensure business continuity. A large percentage of total employees have received the third dose.

Another key concern of Fushan is labour shortage. As more companies adopting China Plus One strategy are coming to Vietnam, attractive retention program to retain talent employees is very important. Furthermore, the severe congestion at China-Vietnam border crossing was another obstacle to Fushan. The factory has utilised its flexible manufacturing options, collaborated with our internal teams including sourcing and external government agencies to embrace these challenges. With the buffer strategy and switching shipments to sea or air mode, the first quarter had a minor impacts on shipments and the second quarter basically returned to normal. The pandemic wave has peaked in mid-March with infection rates easing towards the end of the month and more workers can return to factories, boosting operating capacity during the second quarter and enabling firms to work through backlogs.

As a whole, the most immediate risks to economy of Vietnam include the intensification of geo-political tensions and the manufacturing sector is expected to grow at a slower pace due to similarly slower growth in Vietnam's main export markets that comprises the United States, the European Union and China. Policy priorities of Vietnam should be to entrench the recovery, preserve macroeconomic stability, and promote inclusive growth.

Key Relationships with Suppliers

The pandemic has served to highlight how interconnected, and how easily destabilised, global supply chains can be. The pandemic has highlighted deep fragilities in these networks, with disruption in one part of the chain having a ripple-down effect on all parts of the chain, from manufacturers to suppliers and distributors with disruptions ultimately affecting consumers and economic growth. Prolonged supply chain disruptions can severely impact market sentiment by instigating fear about persistent inflation and apprehension about supply chain resilience and sustainability. COVID-19 exposed a structural vulnerability in modern global supply chains that threatened to dismantle the very architecture that has sustained them over the previous half-century. The Just-in-Time model hinges on a harmonious dance between production, shipping, and stable average demand, but when the music stops, a cascading domino-effect of supply chain chaos takes its place. Lockdown-induced impacts doubled shipping times and caused acute labour shortages and supply chains that were disrupted during the global health crisis are still facing huge challenges and are struggling to bounce back. This

has led to chaos for the manufacturers and distributors of goods who cannot produce or supply as much as they did pre-pandemic for a variety of reasons, including abovementioned worker shortages and late delivery of key components and raw materials.

Supply chain performance is always a prime measurement in determining operation execution excellence within the Group. To address time-to-market, volume-to-market and time-to-volume requirements asked by customers, performance of manufacturing operations is dependent on timely purchase of components and other raw materials, and well run inventory management. The Group sources components and other needed materials required for conducting its businesses from over 3,000 reputable and qualified suppliers, with majority of whom the Group has kept stable business relationship over a long history. Maintaining efficient goods delivery of quality material at best-in-class competitive pricing and without being restrained by certain key supply sources has been a daily challenge to procurement team of the Group. In addition to top critical material cost management, the Group will take necessary actions from time to time in keeping inventory, open purchase order and working capital in check and adequate cash reserve is kept warranting sustainability of its operations. Considering unprecedented challenges presented by unbounded volatility over the past year, rise and fall of the business has practically been dictated by supply chain community, by its deliverable. COVID-19 constraint in certain countries and regions (China in particular), continuing U.S.-China tension, semiconductor and material supply challenge, logistics congestion, inflation pressure and Russia-Ukraine conflict are the few key determinants continue to dominate our business in 2022. Vendors delivering basic materials and supplying components including chipsets, memory, electronic parts, display module, camera module, battery, connectors, enclosure, and packaging material together make up the supply partners of the Group. They are selected through a clear set of requirements developed over long supply management history. It contains specifically technical requirements, quality and reliability standard, price competitiveness, technical competence, innovation and engineering capacity, logistics requirement, service assessment, commercial terms, customers' requirement, capacity, reputation in the industry and financial strength and vendors are then evaluated and qualified through qualification processes defined within the Group. And continuing supplier performance measurement (TQSCE, technology, quality, supply, cost and ESG) is being taken regularly by the operation. Components may not always be readily available at times of supply constraint, and we may not be able to obtain them timely in meeting production schedules and this is why it is challenging to forecast future order books and shipment volume. Purchases made to top five supplier in spend accounted for approximately 53.5% of total purchases made by the Group in the current period. Whilst the Group could engage with many suppliers in the market, over the years the Group has consolidated its purchases with limited number of major suppliers due to ease of procurement processing, supply continuity and favourable commercial terms (especially in pricing) offered by them. All top five suppliers have had long term and well-developed business partnership with the Group over the last five years. They are not bounded by contract nor are asked to keep manufacturing capacity, or, to produce or guarantee minimum supply to the Group, at which, liability exposure to the Group is well kept in control. Given having a clear strategy in securing competitive pricing through purchase consolidation with handful of key suppliers, supply disruption risk to the Group in its ODM business can be contained as potential supply delay or supply instability have been factored into safety buffers that are planned on top of demands. Customers are informed and are aware of such continuing challenge. Contingencies are planned and will be put in place when it is required. Additionally, good number of alternative sources available in the market are always kept as fallback for the Group to work

with when it is needed. Apart from chipset and memory, the Group expects to experience minimal impact from unforeseen market fluctuations such as significant material cost increase or supply delay should the Group decide to engage with a new supplier. Capacity in practicing best in class material pricing in the industry clearly exhibits procurement proficiency and commercial strength of the Group, it is considered as a core competence built upon benefits gained through scale of its operations, bulk volume in purchase, and continuous close interaction and networking with the market. One of the top five suppliers to the Group is the Hon Hai Technology Group. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. Purchases attributable to the Hon Hai Technology Group accounted for approximately 11.2% of the Group's total purchases in the current period.

U.S.-China tension and COVID-19 and geo-political uncertainties have been and remain to be the underlying market disruptors for volatilities and breakdowns many of us and rest of the world have been experiencing in this industry and many others. All other issues we experienced in the past couple years are all derivatives of these two forces except the more recent Russia-Ukraine conflict. Russia-Ukraine conflict simply raised the challenge further to another level, bringing in much more uncertainties that will generate new corresponding adjustment cycles or extend existing adjustments. Disruptions at global scale will continue, and they can only to be fixed one by one after each corresponding adjustment is completed. In our business, semiconductor stays at top of supply challenge list, what have been tight late last year remain to be challenging, namely main chipset and ICs made from certain technology process nodes are still under super long order lead time and tight in supply since supply remains to be far short of demand. Overall material supply improved further in the first quarter, signs of improvement began to reveal from high tier smart phone products in which higher priced, more sophisticated components are incorporated and supply of them eased off first, then there was sign in common components (e.g., passive), supply visibility became longer and more explicit. And pricing increase pressure in certain commodities dissipated and pricing in some began to move downward. Coincidently, leading OEMs in the business have been lowering smart phone shipment forecast for the year after CNY holidays. Market has been earnestly anticipating better supply and less constraint in coming quarters. At the same time, it is so very clear to all that inflation and the coming credit crunch to be instigated by major economies to contain it, and supply disruption of energy, certain basic material, and major crops resulted from Russia-Ukraine conflict could well overturn such expectation. Worst case scenario would be a subdued market with high cost supply in our business while capacity allocated by demand competition may divert surplus to filling demands in other businesses like automotive, cloud computing and AIoT. In which case, end result is adjustment cycle in our industry will take some longer time to complete. Right now the component shortage is easing, which is why customers are starting to focus on improving their distribution channels and garnering customer loyalty. They have to maintain their supply chains and capacity allocations or else they may find themselves facing more shortages once consumer demand returns to normal.

Procurement team may employ basic tools and appropriate tactics in containing demand/supply dynamics from time to time. Pricing and supply requirements are communicated and negotiated with designated sources on a quarterly basis, session for next coming quarter starts from third week entering into a new quarter and lasts till 2 weeks before quarter end, i.e. if

supply instability/disruption, by supply visibility, they will basically be dealt with one quarter or longer before they may actually occur later in time; in some cases, in extreme situation, unforeseen disruptions may come up in very short notice, and those can only be resolved with intense escalation and follow-up review with the suppliers or through near term allocation adjustment. Planning and maintaining visibility are the basics in securing supply. Near term forecast is offered to suppliers on weekly basis, longer term numbers are shared by sourcing team, planning and visibility are built on top of demand forecasting confirmation provided by suppliers. Communication and negotiation taking place in each quarter are tools in determining pricing and supply in coming quarters, bargain/trade off are being made well before actual delivery confirm is given. Preferential supply strategy, in TQSCE, is always the guide in decision making. Supply was top concern in the past 12 months' time, dynamics is expected to shift in the second half of 2022, high level tactics will include, (1) leverage preferential sources, balance demand/supply; (2) explore additional options in commodities where supply is still in constraint; (3) request reasonable market pricing; (4) follow order lead time, maintain order coverage; and (5) seek supply from open market when necessary.

To sum up, while moving into second half 2022, we're expecting clear improvement in supply except certain ICs made from certain technology nodes, pricing could be moving downward in some commodities on lower demand outlook in smart phone; inflation, monetary policy change in major economies, Russia-Ukraine conflict and continuing lockdown in China are apparent uncertainties along the way. As always, in manufacturing, material availability in full square kit is fundamentally essential, at which functionality or value of each component will not make a difference to production operation. If product can be manufactured into one and shipped in time is all that matters. With no doubt, maintaining demand supply balance with agility will be critically important to our success in 2022.

For details, please refer to the "The Group's Value Chain" section of the Company's separate 2021 environmental, social and governance report as issued and published on 13 April 2022.

In response to the potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has its diversified customer and supplier base, and has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. For details, please refer to the "Accountability and Audit" section of the Company's 2021 corporate governance report, which forms part of the annual report of the Company as issued and published on 13 April 2022. In order to deal with lasting component supply instability and inflation risk and COVID-19 and minimise the impact on operations, the Group pays close attention to supply and market price trends and maintains good interaction and communication with customers and suppliers and logistic companies with flexible and efficient procurement and sales strategies.

Key Relationships with Employees

Employees are valuable assets to the Group. Therefore, the long-term strategy of the Group is to cultivate and develop employees internally and to recruit outside professionals and build up the competencies. Product development and manufacture are both complicated process and require professional and experts. Therefore, the Group pays attention to keep enhancing quality and quantity of staff force in order to secure its leadership and competency. The Group

has been working diligently in different countries to attract and retain talents. As to talent development, the Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified and brilliant employees by offering more equal employment opportunities, competitive compensation and benefits, more favourable working environment, broader customer reach, bigger scale in resources, training and job rotation and enrichment and diversification, coupled with better career prospect across various products and programs and business lines and promotion opportunities. The Group places great emphasis on career planning and talent development for employees in different countries by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency and technical development to enhance employees' capabilities, while external training programs include hands-on courses and workshops and seminars or conferences organised by external parties that provide excellent training and professional development opportunities for employees that bring theory and practice together to improve the competency of the Group. Furthermore, the COVID-19 crisis has resulted in a significant increase in online learning. Much of the training that had started as face-to-face in classroom environments has been pursued online. The Group prides itself on providing a safe, effective and congenial working environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been arranged and implemented to ensure a healthy and safe working environment. The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, training and development, knowledge building, motivations, rewards and retention, as well as localisation. The Group complies with relevant labour laws and regulations to protect employees' rights and interests. The Group always emphasises employee benefits as well as harmonious labour relations, and highly values employees' opinions and feedbacks. In order to communicate effectively with staff, the Group provides channels like e-meetings, emails, or mail boxes for employees to reflect their thoughts. Currently, the communication between the Group and employees is well conducted and employees can fully express their opinions, raising any labour issues to promote and maintain a positive labour relationship. Pursuing sustainable corporate development and embracing integrity is our highest guiding principle, and the Company has established relevant business ethic guidelines. Based on the guidelines, employees are required to follow the moral and ethical standards and advocate integrity, honesty and confidentiality to protect the rights and interests of the Company and its shareholders as a whole and enhance the Company's competitiveness and long-term sustainability. While the Group is following the requirements of governmental authorities to contain spread of COVID-19 and taking preventative and protective measures to prioritise the safety of our employees and staff and customers and suppliers, the Group has spared a lot of resources and introduced SOPs (Standard Operating Procedures) and recommended guidance on a range of health and safety protocols and behaviours like personal hygienic procedures, disinfection of surfaces, and social & physical distancing to employees. As the COVID-19 situation has evolved in various countries where the Group's sites are located, the Group imposed strict measures to ensure employees stay healthy and prevent the spread of virus during the COVID-19 pandemic, including enhanced screening works of checking employees' body temperature daily, optimise work in a way to allow for social distance, and improving exhaust ventilation to provide more clean make-up air to rooms, etc.. Also, employees must wear mandatory face masks when they report to work. To reduce potential transmission of the virus, employees are clustered into different groups and eat/work in shifts. The Group has constructed dividers at canteen tables to reduce risk of transmission while dinning. QR codes have been placed on cafeteria seats

and meeting rooms as well, which employees are required to scan to enable proper tracing. The Group also uses its APP for providing employees with up-to-date reliable information on the situation and prevention guideline of COVID-19. To protect the well-being of employees, relaxed attendance or leave policies allow employees to stay home if they have any related symptoms at higher risk of being infected or are quarantined. Fushan keeps evolving employer brand and bagged "HR award-2018" and "Best Company to work for Asia Award-2020", the most prestigious Human Resource Awards in Vietnam. Hanoi site continues to cultivate employee-oriented culture by applying various of employee welfare programs and engagement activities like team building, year-end party, children day celebration, women's day contest, gifts on selected festival, etc.. Hanoi site also offers the opportunity to employees' children who are studying in university and interested in accumulating industry experience under "Dream on the Wing" program. Fushan has built an own gym & created an all book library and also takes care employees' health through vaccination program to corporate with government agencies to have the regular vaccination campaign to protect employees and also to ensure business continuity. Besides, its Learning and Developing team is actively conducting many cultural and employee engagement activities. For example, "Leader's Talk" is where the leaders share Corporate vision and department objectives and answer employee questions for a better mutual understanding and teamwork; "Trainers Programs" is to increase employees' competence and work life balance through topics that employees shared in YouTuber Program; monthly "All Hands Meeting" is where Corporate shares the update of operation and business with employees to ensure the transparency and the alignment of the messages across the factory. Moreover, bi-weekly "Skip Level Coffee" is the moment that all DL technician and line leaders that they can share their thoughts or challenges in jobs and get support from top management or share their experience by brainstorming and get a quick solution to enhance the effectiveness and efficiency for daily operation.

India site is giving lot of focus on training methods for its employees to achieve very high skill level of its employees which will have a positive impact on the productivity. India site takes various steps in this regard. Special attention is given for safety of employees by giving awareness in training to tackle COVID-19 situation. It also focuses on the employee welfare through various initiatives and programs. The employee welfare and facilities like canteen, dorm, etc. are well above the industry standards in India. Carrier growth and increments offered by India site is always better than the industry bench mark which helps us to attract the best talent to the Company. India site also gives lot of importance for Corporate Social Responsibility (CSR) by carrying out various community welfare initiatives. All applicable labour laws and factory laws are strictly followed. India's COVID-19 prevention processes helped to contain the virus spread and India site continues the endeavor to educate employees, vendors and other personnel at the premises to observe the safety guidelines not only factories, but also at their homes and public places. COVID-19 task force looks into the audits for the various COVID-19 standard operating procedure in place, counselling employees for the need of maintaining COVID-19 protocols and continues to help with the vaccination drives that have been planned at our sites. India site has made mandatory for its new employees to produce vaccination certificate during the time of joining. The site continues to do regular temperature screening in factory entrances, periodical sanitisation in all areas of factory, regular mask distribution to all those who are entering in buses and factories (shift in) and dormitories, awareness training and regular inspections/audits by EHS team.

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

Over the past three years, in view of the Group's changes in product portfolio and excess capacity, we have undertaken initiatives to restructure our business operations with the intention of improving utilisation and realising cost savings and remaining as an asset-light and lean group. These initiatives included the restructuring the underperforming parts of its manufacturing operations and disposing idle assets, moving production between facilities, reducing the level of staff, realigning our business processes and reorganising our management, largely to align our capacity and infrastructure with current and anticipated customer demand.

As at 30 June 2022, the Group had a total of 55,840 (31 December 2021: 73,993) employees. Total staff costs incurred during the current period amounted to US$187 million (US$252 million for the first half of 2021 and US$192 million for the second half of 2021), and the year-on-year decrease was mainly due to the optimisation and rightsizing of staff force according to business needs.

The Group offers a comprehensive and competitive remuneration policy which is reviewed by the management on a regular basis. In general, the Group's merit-based remuneration policy rewards its employees for good performance, contributions and productivity. The Group treats all employees equally and fairly, and evaluates employee performance (including determining promotions and wage increments) objectively based on merit, ability, and competence. To encourage employee retention, the Group has implemented annual bonuses, time-based/performance-based incentives and other incentive programs. Employee retention is always a big challenge for all corporation. In a highly competitive global economy and as product development and manufacture are both complicated process and require professional and experts, retaining of qualified and skilled key employees is essential for the sustainable competitive advantage. By offering competitive compensation and benefits, creating favourable working environment, broader customer reach, bigger scale in resources, training and job rotation coupling with better career prospect across various products and programs and business lines are undertaken actions for the Group to increase the employee loyalty and retention rate. In particular, the Company has adopted the Share Scheme and the Share Option Scheme, respectively, pursuant to which (among other things) the Board (or its duly authorised

officer(s) or delegate(s)) may, at its/their absolute discretion, offer share awards or share options (as the case may be) to the eligible employees of the Group and other eligible persons upon and subject to the respective terms and conditions set out therein. The Share Option Scheme complies with the requirements of Chapter 17 of the Listing Rules. Employees also enjoy insurance coverage provided by the Group. The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Company's performance, their duties and responsibilities with the Company, their contributions to the Company and the prevailing market practices as well as the recommendations of the Company's remuneration committee. For details, please refer to the "Human Capital — The Group's Greatest Asset" section of the Company's separate 2021 environmental, social and governance report as issued and published on 13 April 2022.

Review of Results and Operations

Financial Performance

The financial KPIs (Key Performance Indicators) include year-on-year changes in sales, gross margins, net margin and return on equity. For peer analysis, as peers may have different backgrounds, DNA and business and growth strategies, history, business models (like outsourcing or insourcing or co-sourcing) and life cycle, client profile and base and mix, revenue and product mix (casing versus system assembly and other non-handset businesses), product and service strategy and differentiation and positioning and diversification, risk appetite, business segments, pricing strategy and policy, geographical footprint, government support, competitive edges, core competencies, R&D capabilities, asset utilisation, cash flow and position, capital structure, cost structure, it may be difficult to make direct comparisons at consolidated group account level as some peers may have business/product segments other than mobile phone business and geographical segment.

Gross profit and gross margins of a manufacturing business are common financial KPIs measuring how effectively the company turns its revenue into profit and reflects how much of its sales a company retains after paying the up- front costs of producing the goods or services it sells and this metric is a great indicator of a Company's financial health and indicates whether a business is capable of paying its operating expenses while having funds left for growth. A higher percentage of gross profit means a stronger ability to control cost of sales and quality of products, which include control of variable costs such as BOM cost, direct labour costs, variable manufacturing costs, overheads and yields, and efficiency which can improve the contribution margin to cover fixed overheads. If utilisation is low, there will be unabsorbed fixed overheads. The more profitable the business is, the more profit is available to cover operating expenses and ultimately to pass on to the shareholders. Within a given company, gross margin changes over time can provide useful insight into internal improvements in sales management, capacity utilisation, supply chain management, risk management, operation management, inventory control, productivity, quality control, yield control, direct cost control, manufacturing overheads control or a change in the pricing policies and overall cost competitiveness and market landscape.

The Group recognised a consolidated revenue of US$4,125 million, representing an increase of US$187 million or 4.7% when compared to US$3,938 million for the same period last year. Gross profit for the current period was US$81.7 million, represented an increase of US$19.4

million gross profit from that for the same period last year. Gross margins for the current period was a profit of 1.98% and was better than 1.58% for the same period last year. Net loss for the current period was US$23.8 million, when compared to a net loss of US$28.3 million for the same period last year. As the market and macro-economic s are dynamic and volatile, a lot of uncertainties will continue to affect our performance and our past operating results and earnings may not be indicative of our future operating results and earnings. Comparing with the first half of 2021, there is year-over-year improvement in gross profit and gross margin and this is attributable to the cost saving effort of the Group, and proactive measures adopted by the leadership of operations and the effort of all supporting staff to prevent/curb the outbreak of COVID-19 in the factories and avoid/minimise related production interruptions during factory shutdowns, and minimise the impacts of COVID-19 or relevant governmental measures to operation and yield and operational efficiency and productivity, and control costs of all kinds tightly. Through the effort of the procurement team and the support of suppliers, we navigated the pressures of tough supply chain environment where our operations and supply chain teams continued to rally to meet the demand for products against a backdrop of limited supply and the gradual stabilisation of supply of material and component helped to reduce the interruption to production. We leveraged our supply chain practices globally to control materials and component costs, minimise lead times and improve our planning cycle to better meet volatility in customer demand and reduce impact to asset utilisation and inventory levels. Thanks to the rightsizing/restructuring carried out in 2020, the Group becomes leaner with improved utilisation. The company-wide cost reductions initiative and streamlining of our business and increased operational efficiencies and improved productivity, had a favourable impact on our profitability. Following this reduction in idle assets and optimisation of headcount, there was annual savings in expenses and we continued to focus on prioritising spending related to future business. In 2022, the Group continues to optimise its cost structure and improve operational efficiencies and control capital expenditure tightly and carried out rationalisation activities of around US$4 million relating to assets and workforce and organisation which can help reduce costs and overheads in the long run. As explained, market continued to be extremely tough and cash position of some of the Company's customers is still a concern and there is need to closely monitor and review adequacy of ECL allowance of these customers, and finance team has devoted extra effort on the collection works. The Group uses provision matrix to calculate ECL allowance for the trade receivables which are not credit-impaired. The provision matrix is based on debtor's aging as groupings of various debtors that have similar loss patterns. The provision rate is based on the Group's historical observed default rates taking into consideration the forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables which are credit impaired are assessed for ECL individually. The provision of ECL allowance is sensitive to changes in estimates. In light of high uncertainties of global economy and handset market and heightened geo-political tension, the Group recalculated the ECL allowance by increasing the expected credit loss percentage for overdue trade receivables during the current period by reference to the Moody's default rate in April 2022. Despite many of the world's major economies have re-opened, it still needs time for the Group to turnaround. Even after the COVID-19 pandemic has subsided, we may experience adverse impacts to our businesses as a result of its global economic impact, including any possible recession and stagflation, as well as lasting impacts on our suppliers, third-party service providers and/or customers and their behaviors. In other

words, utilisation can only be improved gradually when the market was picking up momentum after mass COVID-19 vaccination programme carried in different countries and hopefully gradual relaxation of various kinds of restrictions in China and re-opening and cooling down of geo-political tensions. As uncertainties are always there, it is too complex for longer term forecast to last and hold, the Group remains vigilant to the challenges which will unfold over time and will be prepared and react to the best of its capacity.

Sales

As explained, we can look at the sales and performance of the Group from demand and supply perspective and the mismatch.

On the demand side, global shipments of smartphones fell 8.8% on the year in the first half of 2022, according to estimates by IDC. Full-year shipments for 2022 are expected to decline 3.5% to 1.31 billion units. Particularly noticeable is the slowdown in China, where the Group has a large presence, which accounts for a little over 20% of shipments. Demand for smartphones this year has been lower than expected, with multiple factors, including the COVID-19 lockdowns in China, Russia's invasion of Ukraine and upped cost of living. Compounding the difficulties for the global smartphone market is the fact that global shipments have faced downtrending since 2016 due to market saturation and existence of surplus capacity in certain markets. The availability of excess manufacturing capacity at many of our competitors creates intense pricing and competitive pressure on the EMS industry as a whole. China's city lockdowns to combat the coronavirus spread cooled consumer sentiment significantly and disrupted the supply chain. Also, the Group faced vigorous competition from the manufacturing operations of our current and potential customers, who are continually evaluating the merits of manufacturing products internally against the advantages of outsourcing. The Group competes with different competitors depending on the type of product and service we are providing or the geographic area in which our operations are located. Our competitiveness are superior quality, cost competitiveness, rapid scale production and accelerated production time-to-volume and time-to-market, ODM capability, lean manufacturing and higher efficiencies and global footprint. The impact of Ukraine warfare to our customers is not large so far but the Group has to continue to monitor impact of high inflationary rate and interest rate hikes to end customers and handset market and our customers. The small year-on-year increase shows that sales recovery of the Group has been constrained by above limiting factors. Sales to one of the Group's original major Chinese customers which is hit by U.S. sanctions continued to drop dramatically this year as U.S. sanctions choked its supply chain. But the increased order gain from another major customer has more than offset the impacts during current period. As Asia is the largest geographical segment of the Group, sluggish demand of China market affected the recovery of the Asia segments and may well continue to do so in the second half of 2022 and it may take some time to return to pre-pandemic level. As the Group has high concentration of limited customers, there is a need to develop more new customers and penetrate other geographical market segment and expand ODM businesses and manufacture other types of products which have ample growth opportunities. The Group keeps seeking other business opportunities both in China and India and other locations like the States and monitoring the market situation and intensifying competition in an effort to maintain our position and competitiveness and long term sustainability in the industry in different countries.

On the supply side, COVID-19 outbreak and subsequent city lockdowns and factory lockdowns in China lead to a sudden slow down in China's industrial activity in some provinces or cities and some manufacturers were unable to produce and ship products as planned due to limited operations at their factories in China. In addition, congestion in Chinese ports meant that global shipping delays and logistics chaos affected supply and continued supply-chain disruptions will create further inflationary pressure globally. Stable supply of material and component supply and workforce availability will also affect productivity of manufacturers. Outbreak of COVID-19 and the factory shutdowns and demand sluggishness have greatly reduced room of improving asset utilisation and capacity optimisation and unabsorbed overheads become higher and there is need to optimise workforce utilisation. Persisting "zero-COVID" policy may accelerate the global supply chain reconfiguration of the Chinese-centric global supply chain and foreign companies are re-evaluating or adjusting their strategies for China. China Plus One and nearshoring policy of some customers have given the Group more opportunities in these overseas countries.

With diffusion of innovation and technology, the smartphone industry has already been 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. In general, the Group has strived to invest in R&D and improve efficiency and maintain a good and stable yield by enhancing production automation, asset utilisation and capacity, quality assurance and quality control, and tighter control on manufacturing overheads and capital expenditure. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to diminish the impact of rising labour cost and enhance efficiency. The Group's dedicated and professional procurement team is leveraged to sourcing materials with competitive prices but now they faced a lot of difficulties due to supply disruptions and supply instability. Furthermore, there has been continuous strong support from the Hon Hai Technology Group to offer in scale, component support and stable supply of key components and a vertically integrated supply chain that allows for production synergies. The Group can leverage on the Hon Hai Technology Group's resources, giving the Group more flexibility in outsourcing capacity.

The Group's performance is primarily attributable to various factors, including:

(i) So far in 2022, demand in China, the largest handset market, has been weakening and red-hot demand for smartphones and personal computers spurred by homebound consumers during the pandemic appears to be losing steam, with China seeing a particularly pronounced slowdown. Even the semiconductors sector, which continues to enjoy strong demand, is sensing a shift and the end markets for smartphones, PCs, tablets and other goods appear to be turning soft. Although demand in the handset market can often be seasonal, so far in 2022, demand in China, the largest handset market, has been muted and reported an overall year-over-year decline of shipments for the current period and the data pointed to a deeper contraction in the China domestic market for mobile phones amid broad-based consumption sluggishness and this softer demand has seemingly been reflected in reduced end-consumer appetite and reassessments of Chinese brands and prolonged demand visibility. Success of the Group ties together with success of the products of our customers which usually operate in markets with severe competition.

Market developments experienced by our customers and/or their products and availability of component supply may from time to time affect the Group's business. Replacement demand is likely to slow on a lack of product differentiation and upgrades and significant new developments in the phone market. Even there are new models, consumers are holding off upgrading to newer models. Coupled with weakened consumer sentiment caused by the continued resurgences of COVID-19 and Chinese government's "dynamic zero-COVID" policy which have weighed on consumption, both demand and supply are reduced and they are the main drivers for the year-on-year decline and affected the rapid recovery of customers and the Group. China's leading smartphone makers have told suppliers that it will lower its full-year forecast and scale back orders for the coming quarters following month long lockdowns that have severely disrupted supply chains and battered consumer confidence. There is also need to digest excessive inventories filling retail channels. This grim outlook poses a stark contrast with the start of 2022, when most smartphone makers expected a recovery in the post-COVID-19 era and an improvement in component supplies. As end market demand becomes uncertain and volatile, our customers are adjusting their outsourcing strategy and are more cautious in their demand planning and demand visibility is greatly shortened and this bollixed the Group's production planning which makes it difficult for the Group to schedule production in an efficient manner and optimise utilisation of our manufacturing capacity and workforce, and to estimate order book with reasonable certainty. In addition, as the end market is highly competitive, whether our customers can maintain pricing power and whether new products of our customers can sell well will affect the re-orders to be placed by our customers and the customers may cut initial order quantity. These factors have lead to decline of the Groups' sales to some Chinese customers and affected the results of the Asia segment in the current period and may well continue to do so in the second half of 2022 and this implies that it may take some time to return to pre-pandemic level and turnaround. There is need for the Group to increase sales and shipments as low asset utilisation will lead to idle assets and unabsorbed overheads and the risk of need of booking additional asset impairment loss will increase. There may also be need to dispose under-performing assets in order to remain asset-light and lean.

(ii) In 2021, thanks to the fast recovery of China from the pandemic, the yield of China sites have improved dramatically from the third quarter of 2020 and there were no such production interruptions in China due to pandemic control protocols in 2021 and the overall yields and efficiency improved in 2021. But in 2022, the COVID-19 pandemic and surge in Omicron-related infections globally have resulted in continued unpredictable COVID-19 bursts from time to time which have caused forced and rolling city lock downs, factory shutdowns, tighter border controls and lower movements within continents and across borders, and have further resulted in an adverse impact on global supply chains and length of supply visibility, delivery lead time and prices of components, logistics, the availability of direct labour, manufacturing capacity and schedules, and handset shipments and sales recovery of the customers and the Group. In particular, the resurgence of COVID-19 in China has forced several major cities or entire regions to go into lockdown and the prolonged lockdown has been slowing down its economy, besides causing a chain reaction across the global economy due to the country's closed factories and rising

logistics costs. The turmoil at the ports has already hit China's factories and foreign trade, as manufacturers have to wait longer to get raw materials. It is also harder for them to ship their products to customers. Inventories of finished goods have surged to the highest level, as products pile up in warehouses due to weak demand and the difficulty of finding trucks to move them. As a result of these lockdowns and logjams and the global uncertainties, both demand and supply are reduced. Economists tended to cut their predictions for China's economic growth rate as China's insistence on sticking with a "zero-COVID" policy which disrupts the economy more severely than monetary policy can provide support and they believe that economic recovery would still be hampered unless China modifies its strict approach to curbing infections.

During temporary factory shutdowns in two of the of the Group's China sites in the first half of 2022, we implemented "closed loop" process that adheres to policies issued by the local government and we maintained a robust COVID-19 business continuity management program to minimise disruptions during the pandemic. The production was suspended for a comparatively short period of time and the operation team succeeded to control the interruptions to material and component supply and direct labour utilisation and shipment and efficiency and yields. Our ability to continue to manufacture products is highly dependent on our ability to maintain the safety and health of our factory employees and we followed the requirements of governmental authorities and took preventative and protective measures to prioritise the safety of our employees. Local government imposed different kinds of safety regulations and guidelines and requirements to prevent outbreak of COVID-19 and the transmission of COVID-19 in the workplace and we have made significant efforts to mitigate the effects of these measures and impacts on our operations through a combination of adjustments in our shift patterns, flexible work arrangements, productivity improvements, facility enhancements to support social distancing and optimising employee capability to work from home. Such requirements are subject to frequent change and governmental authorities will conduct audit on compliance works of companies. We have implemented infection control measures recommended or required by the local public health authorities and the Group has not experienced a significant number of COVID-19 infections among our employees to date. It is important to utilise our workforce in an efficient manner so as to save the cost of providing our services. Local Chinese authority has been very helpful and supportive and put tremendous effort to shorten the time of shutdown and provide all kinds of support so that production of the Group's factories and shipment can be resumed in a quick manner. Suppliers and logistics service providers and customers have given tremendous support during the difficult period of time and all these helped to relieve gross margin erosion of operations. To minimise the costs and expenses, the Group had spent effort to tightly control those additional and unexpected cost in the continuation of production in various sites. COVID-19-related costs incurred comprised of direct and indirect costs, including manufacturing inefficiencies and yield deterioration related to lost revenue during production stoppage due to the inability to secure materials and incremental overhead, capacity under-utilisation, idle time and payroll, expedite fees and freight premiums, sanitary supplies, personal protective equipment, recruitment costs and extra allowances paid to incentivise staff to come back and rent of additional dormitories in different locations during different periods of the year. In light of the reduction in capacity, sites have had to rearrange the shipment without violating any customer contract terms. There are also needs to continue to spend resources and effort on pandemic measures to strictly prevent

the outbreaks of COVID-19 in the Group's sites which will cause production interruptions and also comply with local regulations and protect employees' health. As the Group's overheads and operating expenses are relatively fixed, it is of critical importance to shorten production interruption due to city lockdown and factory shutdown and "closed loop" manufacturing and minimise impact to utilisation and shipments. With low production volume and reduction in utilisation of facilities, there will be less economies of scale and we generally have unabsorbed manufacturing overhead costs and the depreciation charges of the Group's low utilised properties and equipment are still required to be recognised while they were idle and reduced gross profit. Support of suppliers and customers and logistics companies and government are very important. With China re-opening and supply chain stabilising, and components business gaining momentum, overall situation in June has improved. While we have been successful in largely mitigating the effects of the pandemic on our productivity, we are confident that we are well prepared to meet future challenges of continued spread and resurgence of the COVID-19 virus.

It may not be feasible for the Group to reasonably and meaningfully provide a quantitative measurement of the COVID-19 and supply chain disruption impact to the Group as COVID-19 has affected different parts of our operations and the supply chain and value chain. Impact of component supply is more severe when customers' demands fluctuate significantly. Meeting such demand is dependent on supply continuity and optimal inventory carry. Ultimate impact of the COVID-19 and component supply instability to the Group's business, its duration and severity will be dependent on development of COVID-19 and containment measures and geo-political tensions and macro-economics which cannot be foreseen currently. As long as China maintains the very strict zero-COVID stance, we cannot rule out a disruption time to time as the year progresses and this will continue to be a drag on sales recovery of the customers and the Group.

As explained, supply chain volatility could limit our ability to produce and meet customers' demand forecast in full. Order lead time remains to be long in certain components and they are still being placed on allocation by suppliers. Some near term demand dynamics may be difficult to accommodate and the procurement team has to work hard with suppliers to avoid any late allocations which may create inefficiency in operations and contribute to the sequential increase in inventory carry.

For details, please refer to the section of "Impacts of COVID-19 and Supply Chain Instability" and "Key Relationships with Suppliers" above.

(iii) The challenging conditions that the Group has faced since late 2017 have continued into 2022 and there is continued pressure on the Group's gross margins generally and this is aggravated by the pandemic and China's rolling city lockdowns, logistics chaos, sluggish demand due to prolonged phone replacement as a result of lack of upgrades and the threat of soaring inflation and interest rate hikes and persistent existence of surplus capacity in the market and sales recovery of the Group is constrained. The low entry barrier and availability of excess manufacturing capacity at many of our competitors creates intense pricing and competitive pressure on the EMS industry as a whole. Gross margin of system assembly business is really very low and casing business erosion pressure is also extremely high and these now become an industry norm. In the EMS industry, profit

margins are relatively low as component prices are on an average and key focus lies on the labour costs. As market volatility and uncertainties increased dramatically and handset replacement cycle lengthened and demand dropped significantly, all these unfavourable factors have intensified the competition of the global handset market and our customers are more cautious in their procurement planning, inventory control, cash flow management and demand forward visibility is greatly shortened. As the margin of the customers are reduced, they are prone to cut the prices of the handsets we sold to them and margin erosion pressure on us is extremely high. At the same time, the Group has been aggressive to get more orders in order to optimise utilisation. A majority of the market participants face challenges with respect to the operating margin. China experiences high turnover of direct labour in the manufacturing sector due to the intensely competitive and fluid market for labour, and the retention of adequate labour is a challenge. The aspiration level of Chinese workers has increased and they are focusing on high-tech jobs, leaving gaps in the low end of manufacturing value chain. This has led to scarcity of the labour and higher cost due to lack of availability of the manpower which is further aggravated by lockdowns. Our workforce utilisation rate is affected by a number of factors, including hiring of new employees, reliable forecast and projection of demand for our products and services, and thereby maintaining an appropriate workforce in each of our operating sites, management of attrition, training and development and matching the skill sets of our employees to the needs of the customers and industry. The average cost of manufacturing labour in China is higher than neighboring countries like India and Vietnam and dynamic "zero-COVID" policy of China and the adoption of "China Plus One" policy to mitigate supply chain of China have prompted manufacturers to move out of China. The Group has been putting effort on continuous development and penetration of the Chinese and international brand customers, expanding production capacity in India and Vietnam and R&D and casing capability in India and increasing local sourcing in India, and maintaining Nokia-branded feature phones business as key supplier of feature phones to HMD. The markets with fastest-growing smartphone demand are mostly developing countries, such as India and Africa where the average income level is low and people tend to purchase much affordable mobile phones, which are low-end and mid-end models with lower margins. Consumers are becoming more price-sensitive and will curtail non-essential and discretionary spending and keep more cash. In order to meet the shift in consumer market and customers' demand, the Group accepted more low-end devices manufacturing orders which contribute to profit erosion too. Feature phone sales to HMD started to face downside pressure as high inflationary rate has affected sales of low end feature phones in African continent and India.

As a whole, there is a continuous need to reduce operating expenses, redundant assets and optimise headcount and drive for better internal operational efficiency and excellence of manufacturing processes, testing processes, inventory and supply chain management, quality management and, capital expenditure control. There is also need to improve yield to lower manufacturing costs, conduct the benchmarking of cost leaders' processes and costs of external EMS to improve the competitiveness of the Group's manufacturing costs, yield, efficiency and core competence. It is also the long term commitment of the Group to invest in R&D competence building. In conclusion, good vendor management, supply chain management, manufacturing management, business control management, quality management, order fulfillment and inventory management are critical to ensure cost efficient operations on a global basis.

On the basis of a preliminary review of the Group's latest unaudited management accounts and other information currently available, the Company currently expects that: (a) the Group's financial resources (including cash, cash flow and liquidity positions) and working capital remain sufficient to finance its continuing operations and capital commitments; (b) the Group would have sufficient funds to satisfy its working capital and capital expenditure requirements for the forthcoming 18-month period; and (c) no significant events nor circumstances might adversely affect the Group's ability to fulfill its financial obligations or meet its debt covenants in a material respect. However, to seek to ensure that the Group will maintain that, and given the significant change in market demand and consumer-buying behaviour resulting from COVID-19 and Ukraine warfare and high inflation and interest rate hikes and supply instability, the Group has continued to focus on proactive measures to minimise interruptions of COVID-19 containment measures and closed-loop manufacturing to factory operations and output, control overall costs and operating expenses and improve yield and efficiency, and to seek to ease pressure on margin erosion, while at the same time working closely with customers to fulfill their demand at a reasonable cost amidst fierce market competition, and with suppliers to minimise impact of supply limitation. Support of local government is of equal importance. It is the Group's business strategy to become more asset-light and lean, and accordingly, the Group has continued its exercise of rightsizing/restructuring of the underperforming parts of its manufacturing operations, and has generally suspended capital expenditure on non-critical investments and/or capital assets (except India where the Group is keen to expand which expenditures are expected to be funded by cash raised from the listing of the India entity in India Stock Exchange) and has also got rid of its obsolete, depreciated and under-utilised assets. The Company will continue to closely monitor the situation and asset utilisation, and where it considers necessary, will implement further appropriate measures like carrying out further rightsizing and restructuring activities which can improve utilisation and realise cost savings. The Company has been working hard and doing everything that it reasonably can to improve its performance through these long-lasting challenging times. The Company will keep matters under close review as 2022 progresses.

Other income, gains and losses for the current period was US$49 million, representing a decrease of US$27 million from that for the same period last year. The decrease was due to decrease in repair service income by US$12 million and the decrease of mold modification service income and scrap sales by US$17 million. The decrease of government subsidies by US$6 million also contributed to the decrease of other income. In prior years, to lower the cost of production, the Group moved some of the manufacturing capacities to some inland cities in China and incurred relocation costs and logistic costs and the government provided different support to reduce impacts of these burdens to the Group. But there is no such subsidy this year. Such decrease was partially offset by the increase of foreign exchange gain of US$13 million (same period of 2021: US$0.01 million loss) for the current period due to its holding of USD assets and the appreciation of USD during the period. The USD strengthened as the Federal Reserve raised interest rate and expected to raise at a rapid pace to combat inflation. The Group will continue to maintain its consistent hedging strategy to minimise foreign exchange exposure caused by exchange rate volatility.

The Group has taken aggressive steps to reduce expenses and controlled headcount growth to better align with the needs of the business. Regarding operating expenses, for the current period was US$133 million, compared to US$166 million for the same period last year. For selling expenses, there was no material fluctuation compared to same period last year. For R&D expenses, the decrease of US$26 million was due to saving in payroll costs after the optimisation and rightsizing of staff force and better cost control. In addition, when Mobile Drive, a joint venture of the Group, was set up on 31 December 2021, some R&D staff were

transferred from the Group to Mobile Drive, and the R&D expenses incurred by Mobile Drive were no longer consolidated in the accounts of the Group. For general and administrative ("G&A") expenses, the decrease of US$8 million was due to less severance payment associated with of rightsizing/restructuring activities this year. The saving was partially offset by the share options expenses of US$9.5 million as an acceleration of vesting under IFRS 2 upon the cancellation of BFIH's share option in current period, which is a non-cash transaction. The Group will continue to focus on prioritising spending related to future business and avoid cost overruns.

Net profit and net profit margin are the financial KPIs measuring earnings/losses resulting from subtracting operating expenses and other gains and losses (such as equity investments fair value change) and tax and interest costs from gross profit earned and shows the residual of all revenues and gains over all expenses and losses for the period. This KPI indicates how much of each dollar earned by the company translates into profits which results in net change in shareholders' equity that results from a Company's operations. It measures the ability to control operating expenses, optimise tax and capital structure and interest costs, minimise other kinds of non-operating gains and losses (such as foreign exchange gains and losses and equity investments fair value change). These reflect on the profitability of a business and shows how fast the company can grow in the long-term prospect. In light of the factors mentioned above, net loss attributable to owners of the Company for the current period was US$23.8 million, as compared to net loss attributable to the owners of the Company of US$28.2 million for the corresponding period last year. The net loss margin for the current period was 0.58%, as compared to the net loss margin of 0.72% for the same period last year.

ROE (Return on Equity) indicates the capacity of a business to use shareholder's investments efficiently, generating high profits. The Return on Equity shows how much revenue a company generates for each unit of shareholder. The return on equity ratio not only provides a measure of an organisations profitability, but also its efficiency. A high or improving ROE demonstrates to your shareholder's that you're using their investments to grow its business. During the current period, ROE representing the amount of net income returned as a percentage of shareholders' equity, which measures a Company's profitability by revealing how successfully a company utilises the resources provided by its equity investors and the Company's accumulated profits in generating income was 1.22% negative, when compared with the ROE for the same period last year of 1.38% negative. The improving ROE demonstrates the Group generated income more effectively by rightsizing/restructuring activities since 2020.

Income tax expenses during the current period was US$4.9 million compared to income tax benefit of US$3.1 million for the same period of last year. The increase in income tax expenses was primarily due to income tax incurred in certain profitable PRC and India entities during the current period. A PRC entity is profitable during the current period due to receipt of government subsidy whilst the India entity is profitable during the current period which is mainly attained by the optimisation and rightsizing, and stringent overheads and costs control.

Basic loss per share for the current period was US0.3 cent.

Dividends

(i) The Company has adopted the following dividend policy which aims at enhancing transparency and facilitating its shareholders and potential investors to make more informed investment decisions — the form, frequency and amount of dividends to be declared each year and dividend pay-out ratio will be dependent upon the Group's business outlook and strategy, financial performance and cash flow generated from operations, projected working capital and capital structure, future expansion plan and capital expenditure and capital requirements, cash position and other relevant factors as the Board may from time to time deem appropriate. The performance of the Group has been volatile in the past couple of years and the COVID-19 pandemic and U.S. ban and geo-political tensions and soaring inflation and component supply instability and price hikes and logjams have led to a lot of uncertainties for the coming periods of time and the Group needs time to recover (please refer to "Outlook" section below) and to maintain a healthy capital structure. Therefore, the Company will continue to closely monitor the situation, and when it considers necessary, will adjust and/or enhance its dividend policy, as appropriate.

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

Geographical Segments (please refer to note 4 of "Revenue and Segment Information" to the condensed consolidated financial statements)

Closely aligning with the Hon Hai Technology Group objective, the Group's future business plan would focus on remaining lean and asset light and agile and margin protection and diversifying in terms of customer and products and be technologically advanced and continually monitor the market competition and macro-economic conditions, and development of COVID-19 and impact of China's dynamic "zero-COVID" policy and geo-political tensions and control risk on demand side and supply side. On demand side, many consumers admitted that they no longer have the impulse to change new phones as in the past and have been using

their mobile phone for years. The principal reason for not changing mobile phone is that the mobile phone is getting more and more expensive, but without any transformative innovation and mobile phones now all look the same and have no new features and the price does not meet the value. Data released by industry analysis firm Counterpoint showed that, at present, the average replacement cycle of users has exceeded 31 months. Market research firm Strategy Analytics said that the average replacement cycle for Chinese users is 28 months. Some people believe that the performance of mobile phones is now very strong with all kinds of basic functions, and there is no breakthrough in product form, and the marginal effect of changing mobile phones is very small. The decline in consumer demand for mobile phones is directly reflected in shipments. A research report released by CINNO Research shows that, due to the impact of the macro environment, mobile phone manufacturers have begun to reduce market expectations and reduce orders in the mobile phone supply chain, and reduce specifications and configuration of mobile phone products. On supply side, originally most smartphone makers expect a recovery in the post-COVID-19 era of 2022 and an improvement in component supplies and 2022 is a year of post-COVID-19 normalisation, labour market healing, and a growth revival and this is the reason why we still kept some assets to cater for anticipated volume gain in 2022. Instead, the Federal Reserve's quantitative easing in previous years, COVID-19 flare up in China, the spike in geo-political tensions, the war in Ukraine and the sanctions to Russia have created rampant inflation, suppressed consumer buying power and exacerbated global supply chain disruptions. But through the effort of the procurement team and the support of suppliers, the supply of material and component supply has gradually stabilised.

From geographical segment perspective, no business is immune from the COVID-19 crisis and phone demand in different geographical segments may be influenced by different macro-economic factors and COVID-19 policy adopted by local government and it needs time for demand to return to pre-pandemic level. As a result, segment revenue and margin as well as overall earnings, may fluctuate. Countries with large number of domestic consumers would witness home grown manufacturers of OEMs and ODMs, mainly driven by initiatives and supports of the respective governments like India. As Asia segment faces a lot of difficulties and is hit the most, there is year-over-year decline of weight of sales amount to overall sales. For U.S. geographical segment, economy is still strong whilst for Europe market, it is facing huge inflationary pressure and the soaring fuel price and Ukraine warfare has started to affect its economy. These two geographical segments showed year-over-year growth in performance.

Being lean and agile is of critical importance and the Group has to control expenses and spending and capital expenditures and eliminate idle assets and control risks and work closely with local government and customers and suppliers and logistics companies seamlessly in order to increase preparedness and the ability and readiness to respond in a quick and proactive manner as external environments and geo-political situation change very fast, with an aim to minimise the damages of these adverse factors to operations and shipment and balance sheet position of the Group, and to preserve cash. Operating segments' measure of profitability is based on income from operations.

Asia Segment

The revenue of Asia segment in the current period was US$2,867 million, representing a decrease of US$585 million or 17% when compared to US$3,452 million for the same period last year. Result for the current period was US$47 million, represented a decrease of US$6

million when compared with result for the same period last year and the decline was due to decrease in shipment.

In the current period, sales to an original major customer which is subject to U.S. ban dropped dramatically. Chinese smartphone manufacturing industries are shrinking due to the direct hit from the repeated and prolonged COVID-19 and city lockdowns which confined hundreds of millions of consumers at home and slow down of economy of China which have dampened people' consumption and demand for smartphones. Sales of new products launched by one of our major customers was also impacted by COVID-19 which directly affected our shipments. Despite of these factors, Asia segment remains to be the Group's core performance contributor in 2022 but the weight to overall sales and result decreased.

a. *Impact of COVID-19 and weak demand*

(I) China

The China COVID-19 situation has exacerbated an already volatile supply situation and the resurgence of COVID-19 cases in many Chinese cities, including major electronics manufacturing hubs, have led to reduced output and supply constraints, besides creating port congestion, which is bound to create downstream supply chain challenges and hurt production. From the end of January, during the Beijing Winter Olympics, smartphone sales began to decline year-on-year as the Chinese government strengthened quarantine measures. Again, at the end of March, sales fell further as a lockdown of major cities such as Shanghai began. The Chinese consumer sentiment picked up a bit during the Labour Day holiday but major brands could not avoid this overall market contraction and brands are cutting back on orders and there is an uncertainty. Weakened consumer sentiment caused by the Chinese government's "dynamic zero-COVID" policy which have weighed on consumption, and the lack of product upgrades are the two main drivers for the year-over-year decline of smartphone shipment. It is now evident that consumer sentiment becomes weak every time strong COVID-19 quarantine measures are taken. Our success depends on the performance of business of our customers. During current period, sales of new products launched by one of our major customer is not good and that customer reduced the order volume.

Handset players have begun to be less optimistic and reduce market expectations and become more prudent when planning demand and supply chain arrangement and scale back orders for the coming quarters from previous plans following month long COVID-19 lockdowns that have severely disrupted supply chains and battered consumer confidence. They could adjust orders again as they continue to monitor the supply chain situation and consumer demand in its home market. This grim outlook poses a contrast with the start of 2022, when most market players expected a gradual recovery in the post-COVID-19 era when component supplies improve. China's strict "zero-COVID" policy is triggering economic disruptions that are rippling through global supply chains and there is no sign of any relaxation to China's current policy — with no exit strategy for its zero tolerance approach to combating infections. Coupled with tight cost and overhead control, the Group started to carry out rightsizing in second half of 2020 to become asset light and this help improved utilisation and realised cost savings and reducing overheads in the long run. 2022 is

originally to be the year of post-COVID-19 normalisation, labour market healing, and a growth revival, we still kept some assets to cater for anticipated volume gain in 2022.

Regarding component and material pricing, price up momentum began to disperse from the first quarter, even consumer market softened further after Chinese New Year holidays coincided with news about demand forecasts were significantly lowered by leading phone makers, component pricing is not expected to move at same pace with market dynamics by following reasons, (1) runaway inflation, hitting a four-decade high and turnaround is yet visible; (2) high energy/oil price driven by continuing Russia-Ukraine conflict; and (3) both demand and supply disruptions fueled by continuing regular COVID-19 test to the population and a series of lockdown in China, component pricing has started moving downward in the second quarter, it is expected to go lower in the third quarter but certain commodities and certain EE components from certain suppliers. Given operation in China was temporarily affected by lockdown in the region, these businesses are made under EMS mode, as material supply improved steadily during the first half of 2022, less interruption to manufacturing and better delivery fulfillment clearly stopped the deterioration of earning in the period.

The temporary factory shutdowns during city lockdowns lead to a halt of two of the Group's China operation and shipment for some time. During factory shutdowns, we implemented "closed loop" process. Thanks to the support of local Chinese authority, productions were suspended for a comparatively short period of time and productions can resume in a quick manner. Suppliers and logistics service providers and customers along the value chain also gave tremendous support during the difficult period of time. Site management team has been proactive and dedicated effort to implement various measures to prevent COVID-19 outbreak in the factories and successfully minimise costs and expenses. Therefore, the supply disruptions will be a less disturbing factor as the factory bubbles and the government's experience in curbing the outbreak could help to mitigate the impact.

After all, China has upheld a zero-tolerance approach to COVID-19, despite low case numbers and even as the rest of the world tries to live with the coronavirus, is proving unwieldy given the extreme infectiousness of the less-deadly Omicron variant. Chinese local authorities in other regions, with lessons learned from Shanghai, may be inclined to implement radical pre-emptive restriction measures if a rise in cases is reported to avoid potential political consequences. All of these add unpredictability to the domestic supply chains within China and we cannot rule out a disruption time to time as the year progresses and the recovery of the Group's customers and the Group are affected. For the details, please refer to the section of "Impacts of COVID-19 and Supply Chain Instability".

(II) India

The "third wave" of the COVID-19 pandemic, which lasted from the end of December 2021 to the end of February 2022, had a more limited impact on BFIH's business compared to the "second wave" (started in April 2021 and continued until June 2021). Despite the continued impact of the COVID-19 pandemic in 2022,

BFIH's revenue from operations has increased. But because of COVID-led lockdowns in China and disruptions in supply chain flow and manufacturing activity in electronics hubs such as Shanghai and Shenzhen, it faced supply instability of components and raw materials were found waiting on the lines of BFIH. The supply instability have eased since May 2022 but are expected to last at least until the end of 2022 which may have a mild restraining effect on BFIH's operations and revenues. BFIH has to secure component and material supply to meet the demand of festive months of October-December.

The biggest challenge market players in India will face in 2022 will be maintaining device affordability. Oil prices in India are at an all-time high and wholesale inflation remains elevated. Volatility in foreign exchange rates and higher operational costs due to inflation will, in turn, put further pressure on vendors to maintain profitability. But as consumers increasingly rely on their smartphones, the mass market will remain India's growth engine, and having a healthy portfolio in the mid-to-low-end segment will be key to maintaining strong consumer mindshare in 2022. Availability, affordability and attractiveness will be essential for smartphone players to succeed.

(III) Vietnam

For the Group's Vietnam operation, up until March 2022, the sheer volume of infections in the Omicron wave in the first quarter has led to disruption. As there was a relative lack of restrictions and lockdowns and temporary company closures, a lot of companies had been able to resume production despite the spread of the virus and the impact resulting from the Omicron wave has not been as severe as prior waves of the virus and output declined at a much softer pace than in the previous wave. Fushan has coordinated with the government and strictly followed the guidelines to mitigate COVID-19 exposures and to ensure its business continuity.

b. Keen Competition and Margin Erosion Pressure

The Group has faced such challenges since late 2017 and has continued into 2022 and the difficult operational environment that the Group operates and faces prevails. It is well acknowledged that some countries have approached mobile phone market saturation, leading to price competition and forcing industry operators to lower prices to gain competitive edge and a majority of the market participants face challenges with respect to the operating margin in the EMS industry, profit margins are relatively low. As component prices are on an average, key focus lies on the labour costs. China experiences high turnover of direct labour in the manufacturing sector due to the intensely competitive and fluid market for labour, and the retention of adequate labour is a challenge. The margin compression risk will continue as Asia segment sales growth is driven by system assembly business which has a lower gross margin. In China, the general casing manufacturing industry is facing excess production capacity and crowded competition and gross margins of the Group's casing business continued to face huge pressure this year and ahead. As phone demand drops, demand of casing business in China is affected directly and asset utilisation of remaining assets dwindled.

As competition in China is keen, the Group has been keen to expand in India and Vietnam with huge domestic market casing operation and R&D function to differentiate its offerings to customers. BFIH has started building the capabilities to provide casing business for smart phones so that it can provide comprehensive casing and system assembly services to customers and differentiate from competitors. In order to rapidly scaling up its casing capability, it has made significant capital expenditure in purchase of machines and computer numerical control (CNC) machines. BFIH's sales team is under discussions with several potential OEM customers which includes both existing and new ones. The factory is also preparing an investment budget to buy big tonnage injection moulding machine to cater to the needs of existing EV customer and other new customers. It also transfers some machines or tooling from our China facility to optimise asset utilisation of the Group. But in the medium term, we still expect Asia Pacific region to hold a significant market share of global smartphones shipment. The demand for smartphones at the entry-level price points is expected to be driven by the increasing demand from the developing countries such as India and Indonesia, where smartphones are increasingly penetrating into the rural areas as local governments are pushing for digital and mobile economy. India has launched the PLI Scheme, which offered a 6–4% incentive for five years on incremental sales of manufactured handsets over 2019–2020. Smartphone makers producing handsets worth over US$200, had to sell goods worth INR400 million in 2020–2021 to claim the incentives. Such initiatives by the government are expected to boost the smartphone market in the country. The Asia-Pacific region is one of the significant markets for smartphones, primarily owing to the highly developing telecom sector and large customer base. Further, the region is increasingly investing in the mobile network.

Europe Segment

The recorded revenue of Europe segment in the current period was US$492 million when compared with the recorded revenue of US$280 million for the same period last year and the revenue of Europe segment increased in the current period. Sales to one major customer belonging to both Europe and America segment exhibited strong and encouraging growth this year. For the entire P&L of the Group, this customer compensated the shortfall of sales to the original major Asia segment customer which is subject to U.S. ban. But HMD continues to face keen competitions in different markets and the Group's sales of feature phones to HMD declined. The recorded earning of this segment in the current period was US$4.6 million, when compared with the recorded earning of US$8 million for the same period last year and there was year-on-year decrease due to increase its expected credit loss percentage for trade receivables. As HMD is striving for greater market share in the saturated markets and developing countries, such as India and Africa where the average income level is low, feature phone consumers are much price sensitive and surging inflation and food price triggered by Ukraine war have further affected the consumption power of low income people of these countries and such decline in demand will affect cash flow of HMD. HMD has to cut its own operating expenses rapidly, including personnel, and optimise gross margins. Because HMD cash is dependent on how big the revenue is and it must invest part of the savings into sell out incentives to manage increased inventory levels and get sell in back in growth again. Feature phone business of HMD alone is moving from 2 million unit level in July into 3 million unit level in August. HMD will continue to invest into sell out rebates while keeping sell in moderate to allow channel inventory level reach sustainable levels. HMD is extremely low in activity in those markets which are impacted by inflation crisis and foreign exchange and HMD drives other markets in recovery phase more intensively like India. Future strategy of HMD is to focus on improving smartphone gross margin. This is also strategically important

in anticipation of a feature phone market which is declining faster than earlier predicted and moving HMD margin generation more dependent on smartphones in near future. But it is fortunate that 2G chipset supply instability the Group has been experiencing in feature phone since 2021 had shown sign of improvement in the first half of 2022. Improvement in this sector is expected to continue in the third quarter of 2022. Nonetheless, 2G chipset supply can no longer be expected to be raised back to the level in 2020 and earlier, as chipset vendors no longer want to manufacture 2G chipsets and allocate priority production resources to the market popular 4G/5G and next generation chipset. Demand and supply in this product category will be mindfully maintained while a delicate balance within last few key players remaining in the sector is kept. To reduce costs, HMD step out to low-tier ODM competitor. In the first quarter, two ODM rivals have started supplying Nokia-branded feature phone products to HMD. Loss of the market share and the impact of the Ukraine war caused Nokia-branded feature phone order cancellation and the Group is facing lower volume and stronger cost erosion pressure and we can see a foreseeable impact on revenue. The loss of sole vendor competitive advantage made the Group in a more difficult situation in maintaining a fair profit margin with HMD. But in order to reduce overall risk, the Group is selective and has rejected lower profit margin Nokia branded feature phone projects and by shifting resources for exploring non-Nokia business opportunities. But as feature phone business is a cash cow to HMD, the Group will strike a well balance and continue to supply feature phone to HMD so that HMD can generate cash to pay to the Group. On the other hand, the Group is also reviewing existing business model with HMD to see if business risk with HMD can be better controlled.

Worldwide feature phone market continued to decline; a 9.5% reduction to 295.7 million units shipped in 2021. The ongoing decline is primarily resulted from brand makers and mobile operators transitioning product portfolios away from feature phones to affordable entry-level smartphones. Thus, in the first half of 2022, considering the geo-political tension and the overall mobile phone market trend, and the Group's strategy to diverse business risks by expanding into other product categories other than mobile phone, the Group has made organisational adjustments to enhance business development functions gearing toward the global market with emphasis on India and China. The existing organisational structure was set to cater specific major client. By enhancing business development function is not only proactively stepping out to business opportunities, but also to change the way of working, a more aggressive attitude. IDC data shows the shipment from ODM companies account for 37.7% of global smartphone shipments in the first quarter of 2022 and will remain steadily growing, the ODM devices and services are mainly mid and low ends smart phones, which is the volume & price drivers. The Group has global footprint for R&D and manufacturing sites; in addition, we have full coverage of feature phones' asset from low end 2G voice phone to mid-low end smart phone asset that enable us to offer time to market and time to volume products with quick turnover rate at the minimal development cost in the shortest development time. The Group is also driving for differentiating service scope as a key to maintain competitive advantage against other ODM competitors. The approach is not only to provide product design and manufacturing services; furthermore, to provide solution plan to achieve its business target. Undertaking this differentiation service approach, the Group intends to utilise current mature feature phone asset and use minimal resource efforts to assist customers in completing their product portfolio. According to IDC, although the feature phones market is continue shrinking; however, it is not expected to disappear entirely. IDC forecast the feature phone shipments will still remain a total of 173.8 million units worldwide in 2026.

So far, the impact of Ukraine warfare to our Europe segment customers is not large. But as there is growing distribution of smartphones by one of major customer to Europe, there is need to closely monitor the impact and implications. Russia's invasion of Ukraine and the sanction are already having impact on the handset market as firms such as Apple, Nokia and Samsung have pulled out of the country. In terms of the mobile phone market, according to IDC reports published on 28 April 2022, in the Central and Eastern Europe, the smartphone shipments were down by close to 20% in the first quarter of 2022 mainly resulted from the warfare. As the warfare lingered on, the domestic demand in electronics products continued to be hampered. According to another IDC report released on 28 July 2022, the Central Eastern Europe marked the second consecutive decline, which is down by 36.5% of smartphone shipments in the second quarter. However, from the viewpoint of global market, as the volume of Russia and Ukraine only accounted for less than 2.9% (Russia: 2.4%, Ukraine 0.5%) of the worldwide shipments and about 2.1% (Russia 1.9%, Ukraine 0.2%) of market revenue, it was not the biggest reason to draw down on global volumes. Yet, given that the Russia invasion may continue to cause other negative effects including the prolonged inflation and the shortage of key materials and food, most handset players are adopting a more conservative strategy for this year. In Western Europe, market sentiment is affected by high inflation and the worst impact will be felt in the lower price tiers. The broad picture here is that the euro area economy is slowing pretty rapidly because much higher inflation is beginning to weigh on incomes and on consumption, and energy prices are weighing on producers and deteriorating supply chain issues that have been amplified by the war in Ukraine.

As mentioned above, HMD distributes feature phones to India and Africa and the impact has emerged. Additionally, the Group will continue to closely monitor and assess the credit worthiness of HMD and the impact of this segment on the Group's overall performance and cash flow. During current period, the Group increased ECL allowance given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group has been deferred. Especially due to the hit of COVID-19 and city lockdowns and travel restrictions and industry-wide component supply instability and border control and Ukraine warfare and keen competition and the business performance, some of the Group's customers including major customer like HMD may experience financial constraints and tight cash flow and the Group could have difficulty in recovering trade receivables, or can also result in reduction of demand for the Group's products and services from these customers. The progress of fund raising fund of HMD is slow and the Company is monitoring closely the progress and evaluate risk to the timely collection of trade receivable and default risk. Given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group have been deferred, the Group has increased its expected credit loss percentage for trade receivables during the current period by reference to the Moody's default rate in April 2022.

America Segment

For the America segment, core businesses include sales of phones manufactured in China and Vietnam to a U.S. based Internet customer and provision of services including reverse logistics, repair and refurbishment of smartphone for OEMs and carriers by the Group's entities located in the U.S. and Mexico. The recorded revenue in the current period was US$766 million when compared with the recorded revenue of US$206 million for the same period last year and the large year-over-year increase came from the strong growth of sales to

a U.S. based Internet customer. The recorded earnings for the current period were US$20 million when compared with the recorded earnings of US$14 million for the same period last year and the increase is attributable to volume gain.

(i) This U.S. based Internet customer is a very important customer to the Group. The Group provides depth of engineering service for customer premium, complex smartphone product NPI (New Program Introduction) and failure analysis service. We can timely ramp up the volume to meet customer demand within very short time by managing operation complexity and yield timely improvement and developed depth of automation robot software, robot central control system, AI inspection algorithm to reduce labour amount dependency and manual un-consistence and real-time big data analysis and visualisation tool to assist yield improvement. To fulfill customer's orders, we have focused on engaging 2022 new products NPI (New Program Introduction), new products ramping up, yield improvement and chasing material availabilities to support customer launch volume. We also have geographical competitive advantages and management excellence to provide both flexibility and quality speed to meet customer demand.

    In 2022, we went through the challenges and difficulties first from the logistic impact between Shenzhen and Hong Kong for the import material and export shipment and also suffered from city lockdown instructions from the government in Shenzhen in March but the impact was not material. Material supply continuity, soaring labour cost and lockdown are the main problems we are facing. We try to simulate the longer term capacity planning according to advance material supply status to agree on a compromise plan of delivery and idle capacity and continue to improve the yield to increase output and lower down repair effort and develop automation, timely daily yield review to improve yield. To curb component supply instability, the Group placed longer order to secure supply and this customer plays a very important role to secure supply as well. But of course, like other customers, the fierce competition continues to squeeze the margin. The operation is managed carefully by tightly control direct labour to overcome capacity fluctuation and we are in good track for yield and attrition control. The labour rate in China keeps on soaring especially during peak season and direct labour turnover rate in the manufacturing sector is high which is due to the intensely competitive and fluid market for labour, and the retention of adequate labour is a challenge.

(ii) For reverse logistics and repair and refurbishment business, in 2022, the Groups' strategy is to diversify the business model which including bringing in different product lines, building new service level etc.. So, besides smartphone, our global service team has been working on supporting various products' after-market services, e.g. drone product. Right now, the Group's service team is one of the major service providers to the largest drone OEM in China. The Group's Dallas site has built the "return management" capacity to support the largest drone OEM in U.S. market. In respect to the increasing sales of the Group's own ODM mobile devices and wireless products in U.S. market, both Dallas and Mexico factory will scale up the service to support in 2022. The traditional smartphone's repair and refurbishment business has been shrinking year over year due to changes of OEM's Design (in material and modules etc.), prolonged replacement cycle, and demand drop of secondary market. Our service team is changing the repair service model to adapt the changes, 1st half is still challenging. On the other hand, global supply chain challenges influenced customers to expedite localisation and to restructure their supply chain. This looks to benefit our North America operations in the long run and we shall see

the results starting in second half of 2022. We have seen many first tier OEM customers' investments and plans pouring into the region. Our Dallas operation has prepared and transformed to adapt to the trends in hope to rise to the occasion. Numerous projects had kicked off in the first quarter at Mexico and are going to be transferred and ramped up in the third and fourth quarter of this year. By continuous effort of developing and bringing in different product lines, other than mobile devices, to our repair/refurbish servicing business.

Concluding the first half of 2022, the North America operations encountered predicted difficulties such as issues in material supply instability and supply chain efficiency drawback. We had also met continuing unprecedented challenges of labour shortage and higher attrition rate post-pandemic which impacts our Dallas operations and causes profit shrinkage. On top of it, the war in Europe has slowed the recovery of automotive industry down, due to certain material constrains in the region. This has indirectly impacted our Mexico factory. Such lingering challenge of global supply chain has caused customers to either cancel new projects or decrease forecast volume for the first half of 2022. On the other hand, global supply chain challenges also influenced customers to expedite localisation and to restructure their supply chain. This looks to benefit our North America operations in the long run and we shall see the results starting in the second half of 2022. We have seen many first tier OEM customers' investments and plans pouring into the region. Our Dallas operation has prepared and transformed to adapt to the trends in hope to rise to the occasion. Numerous projects had kicked off in the first quarter at Mexico and are going to be transferred and ramped up in the third and fourth quarter of this year. By continuous effort of developing and bringing in different product lines, other than mobile devices, to our repair/refurbish servicing business, we are foreseeing the strong growth in the drone after-market servicing business in both U.S. and Asia markets. By providing new repair solutions of smartphones, the opportunities with carriers and retail channels both in U.S. and Europe, will help to drive the recovery of our mobile device repair/refurbishment from the bottom up, starting in the second half of this year.

Global Supply Chain situation and material shortage issues are getting improved and stabilised in the second quarter of 2022 compared with the first quarter. Thanks to the trend of customers' North America SCM solution strategy, both Dallas and Mexico sites are awarded new projects starting from the fourth quarter of 2022 and 2023. Mexico site has been involving numerous RFQ (Request for Quotes) for automotive projects for 2023 and 2024. Capital investment is being executed per plan based on the awarded business in Mexico. And U.S. operation is also planning the expansion per new demand from new projects. The expansion plan in Dallas for next two years growth till 2024. For the After Market Service business, the Drone repair and services business is growing steady in both China and U.S. operations while the mobile devices service remaining no significant change.

(iii) In 2021, the Group has devoted resources and effort to build up R&D capabilities for mobile devices, especially for cellular embedded products, including cellular modem, antenna and radio engineering, software, mechanical/thermal engineering, system integration and testing, and operator network testing and customisation and the Group succeeded to break the ice on entry into U.S. market and gradually developed some new overseas customers there and designs and manufactures multiple products for U.S. customers including mobile phones, cellular embedded routers, etc.. Based on the

momentum built from 2021, we continue to obtain project wins in different U.S. operators in first half of this year. In particular, 5G products are growing in demand and gaining more momentum as the operators are promoting more 5G services and 5G products which are becoming more affordable as chipsets for mid-to-low tiers products become available and the Group can leverage this trend to earn more business in this segment and is seeing more 5G products in our shipment portfolio based on the momentum. The difficulties encountered are extremely fierce competition in this market segment which pressures us in cost and new technology adoption, the semiconductor supply instability which causes fulfillment difficulty and loss of revenue/profit opportunities, and the unpredictable COVID-19 burst out from time to time which causes forced lock down, material unexpected supply instability, uncontrollable production plan and chaos in logistic arrangements. But these driving forces push us for continuous improvement in design, sourcing capabilities, logistics flexibility as well as more closed partnership with key part suppliers. Given our initial success in top tier U.S. operator business, we see increasing opportunities for more U.S. operator business and expansion of more product portfolios over time. The hardening of interest rates, particularly in America, will impact the flow of funds and the provision of liquidity. Most advanced economies are grappling with high inflation and falling demand. In fact, central banks with heavily bloated balance sheets are in a precarious position. After years of quantitative easing, the United States Federal Reserve has begun the process of quantitative tightening together with raising interest rates and cost of funds. As a result, private consumption in America is likely to fall, affecting the growth prospects of emerging markets in general and the rate of growth of this part of business.

Due to the increase of sales to the U.S. based Internet company, the performance of the America segment had a positive impact on the Group's sales performance this year but margin is under pressure. The Group will closely monitor the future development of this segment and assess the impact of this segment on the Group's overall performance and cash flow.

Peers

Apart from the Nokia-branded phone manufacturing business, the Group's casing and system assembly business also continued to face many tremendous challenges. Since the third quarter of 2019, many mechanical vendors had chosen to diversify their product mix beyond mobile phones to improve their gross margin rate in the declined mobile phone market, which led to an easing on the price competition in this industry. Although the competition pressure eased over the course of 2019, it came back in 2020 and continue to exist in 2021 and 2022 due to the COVID-19 pandemic, the restriction imposed by the U.S. to certain Chinese mobile brand company, a lack of components, raising freight and logistic costs, China's aggressive COVID-19 prevention measures, Russia and Ukraine warfare and the overall decline of the mobile phone market in China.

After considering the Group's business and customer structure and other factors, we proposed to make some adjustments in the selection of its competitors and for better understanding in this announcement, the peers' analysis is divided into casing business and EMS business. But it should be noted that the Group provides a one stop solution and manufactures both casing and system assembly together and sells complete handsets to some customers.

Since 2018, many smartphone vendors proceeded to adopt the metal mid-frame with glass/glastic back cover for better Wifi/LTE signal performance and wireless charging, which lowered the utilisation rate of CNC (Computer Numerical Control) machines, so the smartphone centric mechanical vendors were forced to adjust their product mix. As a skeleton of 5G smartphone, the structure, precision and processing method on metal mid frame is far more complex than traditional metal cases, and a higher average unit price was expected. Yet, in order to stimulate mobile phone sales during the pandemic, Chinese brand companies offer bargain 4G/5G entry phones which further damage the casing business profit in an already over-supply competition. In reality, most of our casing competitors have already extended their business to non-mobile phone products due to the saturation of China smartphone market and hiked operation cost. China domestic labour costs and turnover rate have risen sharply, yet the efficiency of assembly line workers has not increased correspondingly and the cost advantage of China is no longer comparable with other countries in Southeast Asia like Vietnam and India in the medium term. Therefore, the Group will put effort to diversify its customer mix, product mix, and manufacturing location and devoted itself to improving existing technologies and manufacturing, delivering innovation on both processes and materials, enhancing the core competence and capability of mechanical engineering (which is critical to the successful running of casing business), quality and efficient customer responsiveness and speed, shorter mold manufacturing cycle time and cost effectiveness and efficiency of casing business.

For our peers of casing business, they are companies listed in the PRC or Hong Kong and have been the vendors of our customers for a long time with well-established business relationships with the Group's customers. They also have customers, which are not customers of the Group. As the current macroeconomic situation become more fragile due to the pandemic and continuing U.S.-China conflict, they have put efforts on diversifying and optimising their product mix to promote long-term growth. Performance of our casing peers in the first quarter of 2022 are listed as follows:

(i) Peer 1 is a Hong Kong listed company whose core businesses are precision mechanics, electrical drives and acoustics and optics. Its revenue increased by 14.1% year-over-year, while gross profit margin and net profit margin decreased by 11.6 and 8.21 percentage points respectively year-over-year in the first quarter of 2022. The raising revenue was mainly driven by the increase in acoustics, optics and precision mechanic products shipments. Yet, the company recorded margin decline mainly due to the pressure on ASP of its acoustic products, the increased share of low-margin products in its product portfolio, coupled with the rising raw material and labour costs. Regarding mechanics business, the company enhanced the metal casing products shipments and revenue in the first quarter of 2022, benefitting from the increased ASP and market share of its key customers, as well as smooth progress of tablet and wearable projects. Moreover, it also improved its customer base from the consolidation of a company which mainly manufactures metal casing, bottom and parts of tablets, wearables and notebooks products (Toyo Precision). On the other hand, it is worth noting that the company has established an independent business unit for automotive segment products in 2021, suggesting its ambition to promote a comprehensive solution for smart vehicles across the product lines to satisfy the growing market demand and several automotive acoustics projects are

expected for mass production in 2022. Moreover, recently the company proposed its optics business to spin off and go public on the Shanghai Stock Exchange Market. The deal is planned to introduce external strategic investors but the entity will remain as an indirect subsidiary and its financial results will continue to be consolidated into the accounts of the company.

The company has previously supplied components for one of the Group's customers. Yet, the revenue from its component shipments for the customer was negligible from last year. Hence, the company will be removed from the Group's casing peers from 2022 annual report.

(ii) Peer 2 is a PRC listed company whose shares are listed in the Shenzhen Stock Exchange and its core business also includes consumer electronics precision structural parts, electronic connectors and components, new energy vehicle connectors and module, and robots, industrial Internet. The company has been aiming to decline the proportion of revenue from domestic customers and mobile phone products to reduce the dependence on single product and pump up the margin performance. According to the news released by China Star Market on 14 July 2022, the company responded the impact of temporary suspension of mobile phone components purchased by one of its major customer due to high inventory level was mild as they have adopted diversified product strategy to mitigate the high dependency of mobile phones. The company has continued to acquire a new international customer and went mass production of the casing and component of its notebook and smart wearables. Other than this, it has become the component supplier of an International leading EV customer, and aggressively developed the energy vehicles business by partnering with the leading EV battery solution provider to manufacture the battery structural parts. Furthermore, the company has also gained MR (mixed reality) headset casing orders to step into the Metaverse industry. As for the first quarter of 2022, the Company's revenue rose by 60.4% year-over-year, indicating its steady growth of metal casing business of notebook from the new international customer and new energy vehicle business. Yet, the gross profit margin and net profit margin was down by 15.7 and 11.0 percentage points respectively, which were mainly attributed to the relatively low yield and low gross margin of metal casing business of notebook during the ramp-up period, sharp increase in prices of raw materials, and suspension of its production bases led by the resurgence of COVID-19 in March 2022.

(iii) Peer 3 is a Hong Kong listed company whose business includes handset casings and high-precision components, household and sports goods, network communications facilities, and smart electrical appliances casings. In the first quarter of 2022, the company recorded a 7.26% year-over-year decline of revenue, since the unfavourable global economy situation, including volatile international environment and China's strict COVID-19 prevention measures, has adversely affected the company's handset related business. To promote the continuous growth of business in the long run and improve the profitability, the company has been dedicating to optimise its product portfolio by dispersing deployment in non-handset related high-growth industries (such as AR/VR products, household and sports goods and electric vehicles). The momentum for growth in 2022 is expected to come from the household, network, and others segments (e.g. automotive, TP-Link routers). Apart from this, the emerging segments (e.g. wearables and VR devices) will become the major growth drivers for the company in the near future.

System assembly business of OEM business model, which is the major business model of the Group, has a low barrier to entry and low gross margins. In terms of competition analysis, the Group only earns processing fees and manufacturing fees while yield, efficiency and quality differentiation are of critical importance to reducing customers' price sensitivity and developing long-term business relationship. But the amount working capital employed to finance system assembly business can be high. Moreover, other external factors, including the U.S.-China trade tensions, geo-politics and protectionism, the China smartphone's market saturation, component constraints, global logistic problem and China's factories lockdown due to the domestic prevention measures also affected the companies significantly in its OEM business. In response to these factors, some competitors in this industry aggressively established manufacturing capacities out of China and put more effort on other high-margin and high-growth businesses, even expand into new industries by leveraging their resources. The Group's Indian operation is strong due to its ownership of a very large system assembly capacity and its vertical integration from PCBA to complete handset assembly, while currently there are only a few peers with existing overseas capacities or overseas capacities that are just being established, so the Group can utilise its existing capacities in India, Vietnam and other countries to capture first-mover advantages.

For our peers of EMS business listed in the U.S., PRC and Hong Kong, as mentioned above, they have been exploring new business opportunities and expanding their product categories to improve the margins and to diversify the risk of high dependency on mobile phones or few customers. Performance of our EMS peers in the first quarters of 2022 are listed as follows:

(i) Peer 1 is a Hong Kong listed company whose business includes EMS/ODM service for mobile devices, PC and IoT products, component design and manufacturing for a wide range of metal, glass, and ceramic, new intelligent product and automotive electronics. In the first quarter of 2022, the company reported a 5.24% revenue increase. Its revenue from EMS/ODM and components still accounts for a large portion of total sales. The company's assembly and component share of tablet from an International, non-Android customer continued to rise in the first quarter. Also, new model will be introduced for production and new tablet component will start to ramp up in the second half of 2022. On the other hand, the demand from domestic Android smartphone continued to be weak. Yet, the potential decline in components and parts was offset since the company has newly acquired smartphone and note book (NB) structural parts orders from other International customers, and it has also received orders transferred from a Korean customer's factories. Regarding the automotive electronic business, the product shipments have gone up, due to significant increase of new energy vehicles shipments of its parent company, with having several tier 1 carmakers as its customers. In addition, the company has rapidly expanded related product lines. For instance, several new products such as smart cockpit, intelligent driving & IoV may be launched in the second half of 2022. As for the profitability, the company's gross profit margin and net profit margin went down by 0.98 and 3.2 percentage points year-over-year respectively in the first quarter, primarily resulted from the increase in lower-margin assembly revenue, low utilisation rate of production capacity due to weak Android customers demand, and tightened COVID-19 control on its major production bases. Besides, the rising R&D expenses adversely affected the net profit as well. Looking toward this year, the momentum for growth is estimated to come from the increased assembly and components share of products from the company's International customer, the rising automotive electronics and new intelligent products.

(ii) Peer 2 is a reputable U.S. listed company which is an EMS provider focusing on delivering complete design, engineering and manufacturing services to aerospace and defense, automotive, computing, consumer, industrial, infrastructure, medical, clean technology and mobile OEMs. Its net sales uplifted by 9.3% in the first quarter of 2022, while the net income margin modestly went down 1.3% year-over-year. In spite of persistent macroeconomic challenges, as its fully-diversified product, customer and capacity geographical allocation, the company did not have huge impact on its financial performance and even reported high single digit revenue growth. The pumped sales attributed to the strong demand in communication, cloud and lifestyle (e.g. appliance, audio and floor care) product line, as well as the booming electric vehicle market, especially in China. In terms of profitability, though the company continued to improve the product mix by developing more high-end product orders, in the quarter, due to increased freight and logistic costs, its solar tracker business segments faced a headwind which ruined the overall margin performance.

(iii) Peer 3 is a Shenzhen listed company having three business segments, EMS service for hard drive and consumer electronics, ODM service for automation and IoT products, and memory module assembly, packaging and testing. Its revenue in the first quarter descended 4.6% year-over-year, while net gross margin and net profit margin saw a 0.4 and 0.8 percentage points year-over-year slight increase. The mild decline in revenue stemmed from the soft demand in consumer electronics and the restricted components. However, the fast development of its storage semiconductor manufacturing, packaging and testing services considerably offset the impact partially. The new memory chip plant had already gone mass production at the end of 2021, and it would contribute to a further increase in revenue this year. In terms of other businesses including ODM and new energy automotive, the company is developing more oversea customers to adopt its new intelligence solutions and continues to invest R&D in supercapacitor module solutions for electric vehicle, wherein several products have already entered mass production. On top of that, in March 2022, the company announced they decided to dispose of the subsidiary, which mainly provides manufacturing and sales services for consumer electronic including mobile phone, and sell it to one of the Group's peers mentioned below, representing it would not be consolidated into the financial report in 2022. Revenue from the subsidiary accounts for 22.6% of total revenue in 2021. The company expected that once the semiconductor factory development, consumer electronics business integration, and the spin-off completed, the decreased operating expenses and better product mix would elevate the profit margin apparently.

As the mobile EMS service will not become a major business for the company anymore, hence, it will be removed from the Group's peers from 2022 annual report.

(iv) Peer 4 is also a Shenzhen listed company whose main business is EMS service for consumer electronics, internet communication product, smart devices and automotive electronics. In the first quarter, its sales skyrocketed by 107.4% but its gross margin and profit margin only edged up by 0.1 and 0.7 percentage points respectively. The booming sales performance was driven by the new orders from two of the China major smartphone brand companies to offset the headwinds of its customer suffered from the prolonged U.S. sanctions. In fact, one of the two customers who pumped its sales is our major Chinese customer. Also, this customer is proceeding to partner with the company to build the

manufacturing capacities in Vietnam for the purpose of developing the local market and the whole Southeast Asia market and it expected to contribute its revenue in the future. However, due to the different business model from consignment to buy and sell, the margin of the new orders was lower than before. Yet, thanks to the improved utilisation rate, the overall margin still inched up. Similar to other competitors, the company is expanding its product portfolio to non-mobile device business including smart wearables and tablet, and moving into the automotive electronics segment, with partnership with a leading vehicle electrification supplier. The automotive product from the vehicle supplier started to ship in this quarter.

(v) Peer 5 is a Shenzhen listed company having several business segments including precise components, structural parts and module, charger, assembly, materials and automotive components. In the recent years, the company has restructured its organisation and aggressively developed the assembly and charger business in line with its core strategy — "vertical integration". The movements include acquiring several factories from our peers, jointly establishing a factory in Turkey with our major China customer, investing the Vietnam subsidiary of one of our peers, signing agreements with Guilin government to build an intelligent manufacturing industrial park in Guilin to develop charger business and so on. The sequential acquisition and investment made its revenue go up quickly. In the first quarter of 2022, benefiting from the increased revenue of assembly, charger and automotive businesses, the year-over-year revenue growth rate was 9.9%. Yet, the net profit margin was eroded, down by 3.0%, affected by the worsen product mix, component shortage and the raising price of materials. Moreover, as the company was in the process of capacity expansion, indicating the utilisation rate was lower, the depreciation expense and labour cost still accounted for a high percentage of total sales. This was one of the reasons that the margin performance was eroded either.

In summary, due to lots of external influences, including global pandemic, political tensions, supply shortage and so on, most of our competitors have taken actions on changing their product/customer mix and overall business strategy. They gradually lowered dependency on mobile phone business and developed other sales engines to respond to the changes in market conditions. The Group have been closely monitoring the market movement and continuously optimising the capacity utilisation in China, India, Vietnam, strengthening our vertical integration ability, aggressively developing new products and services for various customers in the area of IoT/5G, automobile electronics, healthcare electronics, etc..

Investments

On the basis that the value of each of the investments mentioned below as of 30 June 2022 is less than 5% of the Group's total assets as at 30 June 2022, the Company does not consider any such investment as a significant investment for the purposes of the Listing Rules.

The Group has continued to enhance its EMS businesses and explore new opportunities of 5G/AI related application, V2X (Vehicle-to-Everything) and medical electronics to reinforce the Group's dominant position in the consumer electronics manufacturing industry through investments and M&A (mergers and acquisitions) opportunities and activities.

Investments in Business relating to Nokia-branded Products

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

HMD switched its supply chain from a single vendor model to a multi-ODM set-up since the second quarter of 2019. Up to now, all of HMD's smartphone portfolio is manufactured by the other ODMs. For the manufacturing side, the feature phone business continued to be managed with a focus on profitability, to maintain portfolio competitiveness, with the Group as the sole supplier.

In August 2020, the Group purchased a US$38.3 million worth of HMD's convertible bonds (the payment of which was deemed to be made through outstanding receivables of an equivalent amount). During the course of the transaction, the evaluation by the management of the Company (covering, among other things, financial due diligence, independent valuation, etc.) of HMD's management accounts, cash flow analysis, financial forecasts, business performance and prospects, valuation analysis and other relevant information and documents then available, and also the relevant negotiations and documentation with the management of HMD and its other investors respectively (with the aim to securing more favourable terms for the Group to optimise the Group's return from its entire investment in HMD as a whole in the circumstances), were recorded and reported to the Board for its consideration. But as explained in above sections, cash position of HMD is still tight and the Group has been monitoring this. The convertible bonds were fully converted and currently, with the previous investments, the Group's total investment represented 14.38% of HMD's total issued shares.

With reference to the valuation carried out by independent professional valuers, the management has assessed the fair value of the investment in HMD as at 30 June 2022. The Group took corresponding adjustments to the fair value change for the Group's direct and indirect investment in HMD through other comprehensive income ("OCI"). The investment team will continue to monitor the progress its fund raising and business performance and liquidity and impact of COVID-19 and component shortage to its business and cash position.

Other Investments

The Group invested US$1 million in CloudMinds Inc. ("CloudMinds"), an operator of cloud-based AI robots in China in 2015. The company has filed an IPO application with the U.S. SEC (Securities and Exchange Commission) in December 2019. Due to the impact of COVID-19, global economic downfall, and sanction imposed by U.S. Department of Commerce, Bureau of Industry and Security (BIS), the company decided to refocus on the Chinese market and aiming at IPO there. Hence, CloudMinds has started a recapitalisation process and a new round of financing to enhance its future technology development and

financial status starting from the end of 2020. In the first quarter of 2022, CloudMinds closed its recapitalisation and its entire B+ round financing with over US$100 million from several reputable strategic investors. Therefore, the Group's stake in CloudMinds' related entity falls from 0.82% to 0.78%. Based on the recent performance and the forecast for the next three to five years and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in CloudMinds as at 30 June 2022. The Group took corresponding adjustment to the fair value change in this investment.

Augentix Inc, founded in 2014 in Taiwan, is a fabless multimedia SoC (System on Chip) design company offering proprietary algorithms products with efficient intelligent vision applications. Thus, since the product introduction, it has been widely used in the field of home IoT (Internet of Things), professional IP camera, and consumer surveillance by leading brands around the globe. Furthermore, one of Augentix's customer has won the CES Innovation Award in 2020. Against the supply chain shortage in semiconductor industry in 2021, Augentix still achieved a near 80% revenue growth over last year, and it still keep the pace to develop new products. Expecting to release in the last quarter of 2022, Augentix's new series of AI SoC will provide broader edge computing applications and enrich the features for use in surveillance, home security and consumer IP camera. The Group invested around US$0.7 million in Augentix by subscribing Augentix's convertible note in December 2019 and the note has been fully converted to common shares in November 2020. Through this investment, the Group expects a deeper collaboration with Augentix to further develop in IoT and V2X industry. After its last round fundraising of New Taiwan Dollars 130 million in July 2021, Augentix is launching its new round of financing now, aiming to partnership with extra strategic investors. As at 30 June 2022, the Group's stake in Augentix is 1.93% on the fully diluted basis.

The Group made a strategic investment of around US$1 million in Ossia Inc. ("Ossia") in June 2020. Ossia, the creators of Cota® Real Wireless Power™ redefines wireless power by safely delivering targeted energy to multiple devices simultaneously at a distance. Ossia's Cota technology is a patented smart antenna technology that automatically keeps multiple devices charged without any user intervention and enables an efficient and truly wire-free, powered-up world that is always on and always connected. Ossia is a fabless technology licensing company, and headquartered in Redmond, Washington. Ossia has announced 8 Cota-enabled products coming to market in the last 12 months, including Cota Power Station, Cota Asset Tracker, Cota-powered IoT sensor, Cota Power Table and so forth. Specifically, Cota Power Table was named a CES 2022 Innovation Awards honoree in the Mobile Devices and Accessories category, aiming to provide a seamless wireless charging experience for 200+ Qi-enabled devices on the quick service restaurants, coffee shops and airports. The Group will be a preferred partner and contract manufacturer for Ossia's customers wanting to build or integrate Cota wireless power into their devices, sensors, automotive applications and IoT products.

SoundHound is a leading innovator of conversational intelligence, offers an independent voice AI platform that enables businesses across industries to deliver best-in-class conversational experiences to their customers. Built on proprietary Speech-to-Meaning® and Deep Meaning Understanding® technologies, SoundHound's advanced voice AI platform provides exceptional speed and accuracy and enables humans to interact with products and services like they interact with each other — by speaking naturally. SoundHound is trusted by companies around the globe, including Hyundai, Mercedes-Benz, Pandora, Mastercard, Deutsche Telekom, Snap,

VIZIO, KIA, and Stellantis. On 16 November, 2021, SoundHound announced they have entered into a merger agreement with Archimedes Tech SPAC Partners Co. and expected to become publicly traded in the second quarter of 2022. In April 2022, as a good gesture to build a closer relationship, the Group participated in the US$113 million PIPE (Private Investment in Public Equity) round of financing for SoundHound with a US$1 million investments, the other investors of this round included Oracle, Qatar First Bank, Koch Industries, MKaNN, VIZIO, HTC, Structural Capital, and so forth. After the completion of the PIPE round, SoundHound closed its SPAC merger transaction, becoming a NASDAQ listed company (NASDAQ: SOUN).

Founded in 2007, Snapdeal Limited ("Snapdeal") is a leading e-commerce platform in India, started as a coupon booklet business, but transformed into an online deals platform in 2010 and an online e-commerce marketplace in 2012. The Group invested US$200 million comprising US$150 million in cash and US$50 million subscribed from its existing shareholder at a discounted price in 2015. In 2017, the Group had fully impaired this investment due to its less than expected operation and financial performance. On 21 December 2021, Snapdeal filed the Draft Red Herring Prospectus (DRHP) toward the SEBI for the purpose of IPO. The company stated that the fresh issue amount would be up to INR12,500 million and the Offer for Sale of equity shares would be up to 30,769,600 sold by the existing shareholders. The Group has participated the Offer for Sale and expected to sell up to 17% of its current shareholdings of Snapdeal. The rest of shareholdings will have a six month lock up period post IPO and the investment team will monitor the share price and India stock market performance to liquidate in a timely manner. As the India capital market is volatile and the current stock prices of many high-profile companies have slipped far below their issue price, the SEBI have been engaged in actively scrutinising all companies which have submitted the DRHP. Hence, it may delay the timeline of Snapdeal's IPO project.

The Group made a strategic investment in GFT Ventures I in March 2022. GFT Ventures I is a private fund with around US$100 million of fund size. The fund focuses on series seed or A stage startups in several specific areas including mobility, digital health, robotics, automations and AI technology. The Group is expanding in different industries in these years, and the strategic investment is one of the movements to develop new businesses and diversify the dependency on mobile phone and single customer. The general partners of the fund have over 20 years experiences in venture capital, AI and semiconductor fields. Leveraged by their knowledge, the Group would have more opportunities to build other sales engines in the future.

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

On 31 December 2021, the Group has closed the deal and introduced Stellantis, world's number 4 leading automakers and mobility provider, to invest US$40 million in Mobile Drive Group, an automotive technology focused wholly-owned subsidiary of the Group. After closing, Mobile Drive Group became a jointly venture which is equally owned by the Group and Stellantis. The investment in Mobile Drive Group and the subsequent share of profits/ losses of Mobile Drive Group will be accounted for by equity method in the Group's consolidated financial statements.

Combining with wide resource and solid experience from both sides, Mobile Drive Group would rely on the expertise in wireless communication and automotive industry to focus on the software and hardware integration in smart cockpit and in-vehicle infotainment system, delivering the disruptive in-vehicle V2X solution to the entire industry, and the Group would become the strongest anchor partner to provide all the supports from the hardware manufacturing side. During the course of the transactions, the management of the Company's evaluation of the Mobile Drive Group's management accounts, cash flow analysis, financial forecasts, business performance and prospects, valuation analysis and other relevant information and documents then available (particularly in the context of determining the consideration for the Group's disposal of 50% interest in the Mobile Drive Group), and also the relevant negotiations and transaction documentation with Stellantis (with the aim to securing more favourable terms for the Group as a viable joint venture opportunity of the Group to optimise the Group's investment in the Mobile Drive Group in the circumstances), were recorded and reported to the Board for its consideration.

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

As at 30 June 2022, the fair value of the Group's equity investments designated as FVTOCI was US$161 million, which represented 3.0% 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 2022, the Group had disposed of some investments, and also took corresponding adjustment to the fair value change in a few investments which had better/less than ideal performance. The investment team maintains a close relationship with the respective management teams of those investees, and conducts periodical in-house analyses. Based on the result of the analyses, the investment team will consider hedging the risk exposure should the need arises. The Group is not currently aware of any potential cause which would lead to any substantial loss arising from the change in the fair value of the Group's investments in certain listed companies during the current period. In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring and evaluating good investment potential opportunities that can add value to the Group, though at this stage, the Group does not currently have any plan for a significant investment contemplated by the Listing Rules.

As the mobile phone market has become a mature market with less gained traction, the Group continually seeks the investment opportunities in other industries with huge potentials, including automotive, healthcare and so forth. Along with the 5G booming, the ACES trends (autonomous driving, connected vehicles, the electrification of the powertrain, and shared mobility) are mutually accelerating revolution in the automotive industry, and McKinsey (a management consulting firm) predicts that automotive E/E (electrical and electronic components) and software market will grow at a CAGR (Compound Annual Growth Rate) of 7% to reach US$469 billion by 2030. Also, promoted by the awareness of environmental protection, more and more governments and auto companies announced their plans for minimising new gas-powered car manufacturing within 5 to 10 years, which expedites the development of new energy vehicles equipped with new E/E and cutting-edge software. Besides, due to the aging population and the sprouting of health awareness, healthcare has become an unignorable issue, according to Statista, global medical device market is expected to grow at CAGR of 7.1% from US$455.1 billion by 2022 to reach US$641.3 billion by 2027. Hence, the Group's investment strategies will be adjusted to be more focused on 5G, IoV (Internet of Vehicle), medical electronics and AI, which include but not limited to IoT smart devices, smart home products, IVI (In-Vehicle Infotainment) and telematics system, V2X (Vehicle-to-Everything) technologies, or others for synergies creation via establishing strategic partnerships with technology companies. Among the characteristics that the Group looks for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations and new business including IoV; favourable long-term growth prospects; and cultural fit with the Group. In fact, the Group has reached a cooperation agreement with a prestigious private industrial investment fund. The Group will put in its less utilised assets and design and manufacturing experiences, while the fund will provide financial support into an accelerator focusing on the medical fields in Beijing. The Group has an experienced investment team and will continue to hire talents and has prioritised investments of comparatively low risks and with long-term growth prospect which may take years before the investment can be realised. As a whole, the Group will be cautious on expanding its investment portfolio to create synergies but at the same time to cope with the possible uncertain economic environment and volatility of the capital market throughout 2022.

Since 31 December 2021, the Group's wholly-owned subsidiary Mobile Drive Group has become a jointly venture which is 50%-owned by the Group and Stellantis individually, and the subsequent share of profits/losses of the joint venture will be accounted for by equity method in the Group's consolidated financial statements. Other than that, there had been no material acquisitions and disposals of the Group's subsidiaries and associates and (if any) joint ventures. For the sake of completeness, during the current period, to simplify its corporate structures and to reduce on-going administrative burden and costs, the Group has continued to close down certain of its non-operating subsidiaries (comprising mostly investment-holding entities) where the aggregate value of such subsidiaries' respective total assets, profits or revenue (or consolidated total assets, profits or revenue, as the case may be) represents less than 5% under any of the applicable percentage ratios defined in the Listing Rules.

Compliance with Relevant Laws and Regulations

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

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

During the current period, as advised by the relevant local legal advisers and tax advisers, the newly-promulgated local laws and regulations applicable to the Group's operations in the PRC, India and Vietnam (being the jurisdictions which are considered, in terms of the scale of businesses and operations as well as the number of employees, factory units and office units, to reflect the comparatively significant impacts of the Group's overall business unit/group operations) that have a significant impact on the Group are highlighted and summarised as follows:

PRC

In relation to the PRC Civil Code which took effect on 1 January 2021 (Civil Code), please refer to the background and previous developments as described in page 61 of the Company's 2021 annual report as issued and published on 13 April 2022. On 24 February 2022, the Supreme People's Court issued the Interpretation on Several Issues Concerning the Application of Part I General Provisions of the PRC Civil Code (Judicial Interpretation on General Provisions), which became effective on 1 March 2022. Among other things, the Judicial Interpretation on General Provisions clarified that, in relation to ostensible agency, if there exists the appearance of agency, and if the counterparty did not know that the person had no power of agency at the time and had no fault, the court may find that the counterparty has a reason to believe that the person had the power of agency. This clarification has provided guidance on the practice of the Group's PRC subsidiaries of entering into contracts with or otherwise dealing with third parties.

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

- For value-added tax (VAT), please refer to the background and previous developments as described in page 61 of the Company's 2021 annual report as issued and published on 13 April 2022. At this stage, the draft Value-Added Tax Law (consultation draft) (Draft VAT Law) is still pending the approval of the National People's Congress, and the Group's PRC subsidiaries will continue to monitor the legislation process of the VAT regime and assess the potential impacts of the Draft VAT Law on their operations in anticipation of its enactment.

- In relation to certain tax cut measures applicable to manufacturing companies as introduced by the Ministry of Finance of the PRC (MOF) and the State Administration of Taxation of the PRC (SAT): (i) please refer to the background and previous developments as described in page 89 of the Company's 2021 interim report as issued and published on 15 September 2021 and pages 61 and 62 of the Company's 2021 annual report as issued and published on 13 April 2022; and (ii) for the VAT refund policies, on 21 March 2022, the MOF and the SAT issued the Announcement on Further Intensifying the Implementation of Policies for Period-end Uncredited VAT Refund (2022 VAT Refund Announcement), which became effective on 1 April 2022 and repealed the Announcement on Clarifying the Period-end Uncredited VAT Refund Policy for Advanced Manufacturing Industries effective on 1 April 2021 as referred to in page 89 of the Company's 2021 interim report as issued and published on 15 September 2021. The 2022 VAT Refund Announcement expanded the application of the refund policy for incremental uncredited VAT to cover eligible taxpayers in manufacturing and other designated industries (e.g. scientific research and technical service industry, software and information technology service industry, etc.). In addition to the refund of incremental uncredited VAT, it also provided that qualified medium and large enterprises may apply for a one-off refund of the remaining uncredited VAT. It follows that the initiative to refund by cash of any qualified incremental uncredited VAT as well as the remaining uncredited VAT for qualified companies could enable the Group's PRC subsidiaries to get cash refund of any unutilised VAT credits, even one-off in a lump sum in an earlier manner, thereby reducing their cash-occupied costs.

In relation to the draft revisions to the PRC Company Law for public consultation (Draft Company Law Revisions), please refer to the background as described in page 62 of the Company's 2021 annual report as issued and published on 13 April 2022. The Draft Company Law Revisions are still under discussion and have not yet been adopted. At this stage, the Group's PRC subsidiaries will continue to monitor the public consultation process of the Draft Company Law Revisions and assess their potential impacts on the operations of the Group's PRC subsidiaries in anticipation of their adoption.

In respect of the PRC Foreign Investment Law which took effect on 1 January 2020 (FIL), please refer to the background and previous developments as described in page 62 of the Company's 2021 annual report as issued and published on 13 April 2022. In particular, the governance structures and constitutional documents of the Group's PRC subsidiaries being foreign-invested entities (Group FIEs) shall be adjusted to accommodate the corresponding requirements under the PRC Company Law, which may imply additional

costs of regulatory compliance. During the 5-year transition period from 1 January 2020 to 31 December 2024 under the FIL for the Group FIEs to conform with the then effective PRC Company Law, the Group FIEs will continue to assess the impacts of the FIL and (as mentioned above) the Draft Company Law Revisions on their operations and then devise and implement appropriate corporate initiatives and actions.

India

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

Vietnam

For the Vietnamese Government's policies to support businesses which were affected by the COVID-19 pandemic (including the reduction of 37 types of fees and charges as introduced under Circular No. 120/2021/TT-BTC of the Ministry of Finance of Vietnam dated 24 December 2021), please refer to page 62 of the Company's 2021 annual report as issued and published on 13 April 2022. However, such reduction ceased to apply from 1 July 2022.

In relation to the RCEP (Regional Comprehensive Economic Partnership) agreement between 10 ASEAN (Association of Southeast Asian Nations) countries and 5 countries with which ASEAN signed free trade agreements (namely the PRC, Australia, Japan, South Korea and New Zealand), please refer to the background and previous developments as described in page 45 of the Company's 2020 annual report as issued and published on 20 April 2021. The RCEP agreement has become effective from 1 January 2022. The RCEP agreement serves to remove step-by-step 92 kinds of import taxes/tariffs among its member countries in 20 years, and helps enterprises of its member countries save costs and time to export their products among its member countries through simpler customs procedures, and in particular, the requirements about certificate of origin have become less complicated. As Vietnam is one of the RCEP member countries, the Group's Vietnamese subsidiary could enjoy the relevant benefits and advantages offered and to be offered under the RCEP agreement, particularly when it could help reduce tax/tariff burden on the Group's Vietnamese subsidiary and its customers, suppliers and other business partners, thereby enhancing the competitiveness of its "Made-In-Vietnam" products.

On 28 March 2022, the Vietnamese Government issued Decision 08/2022/QD-TTg regarding its support for employee's house rental fee, pursuant to which employees who are working in industrial parks, exporting zones and key economic zones and employees who return to labour market from April to June 2022 would be supported by 3 months of house rental fee, ranging from VND (Vietnamese Dong) 500,000 to VND1,000,000 per month. This could support enterprises (including the Group's Vietnamese subsidiary) to secure enough manpower for their operations during the COVID-19 pandemic.

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

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

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

In relation to the Group's compliance with the relevant laws and regulations that have a significant impact on the Group in respect of environmental, social and governance aspects, please refer to the Company's separate 2021 environmental, social and governance report as issued and published on 13 April 2022.

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

Liquidity and Financial Resources

The Group's capital resources consist of cash principally provided by operating activities and bank credit facilities. The Group regularly reviews the borrowing capacity and makes necessary adjustments for changes in money market and economic conditions and market risks and changes in our working capital requirements. The Group centrally manages the funding and treasury activities in accordance with corporate policies, and the main objectives are to ensure appropriate levels of liquidity, to have adequate funds available for working capital or other investments at reasonable costs which are required to grow the business, to maintain a healthy capital structure, and to balance the exposures to market risks and uncertainties and volatilities.

As at 30 June 2022, the Group had a cash balance of US$1,676 million (31 December 2021: US$1,885 million). Free cash flow, representing the net cash used in operating activities of US$213 million (31 December 2021: net cash from operating activities of US$281 million) minus capital expenditure of US$59 million (31 December 2021: US$119 million), was US$272 million outflows (31 December 2021: US$162 million inflows). The Group has abundant cash to finance its operations and investments. The Group's gearing ratio, expressed as a percentage of interest-bearing external borrowings of US$1,041 million (31 December 2021: US$857 million) over total assets of US$5,455 million (31 December 2021: US$5,980 million), was 19.08% (31 December 2021: 14.33%). All of the external borrowings were denominated in USD, RMB and INR (31 December 2021: USD, RMB and INR). The Group borrowed according to real demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest-bearing external borrowings were all at a fixed rate ranging from 1.48% to 5.90% (31 December 2021: fixed rate ranging from 0.61% to 5.90%) per annum with an original maturity of one to six months (31 December 2021: one to six months).

As at 30 June 2022, the Group's cash and cash equivalents were mainly held in USD, RMB and INR.

Net cash used in operating activities during the current period was US$213 million.

Net cash used in investing activities during the current period was US$92 million, of which, mainly, US$59 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$36 million represented net cash outflow from bank deposits, US$4 million represented acquisition of equity instruments at FVTOCI, US$6 million represented proceeds from disposal of equity instruments at FVTOCI and US$1 million represented proceeds from disposal of property, plant and equipment.

Net cash from financing activities during the current period was US$173 million, primarily due to net increase in bank borrowings of US$189 million, payments on repurchase of ordinary shares of US$6 million, interest paid on bank borrowings of US$6 million, repayment of lease liabilities of US$3 million and interest paid on lease liabilities of US$1 million.

Exposures to Currency Risks and Related Hedges

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

Capital Commitments

As at 30 June 2022, the capital commitments of the Group were US$21.6 million (31 December 2021: US$15 million). Usually, the capital commitments will be funded by cash generated from operations.

Pledge/Charge of Assets

There was no pledge nor charge of the Group's assets as at 30 June 2022 and 31 December 2021.

Contingent Liability

There was no material contingent liability for the Group as at 30 June 2022 and 31 December 2021.

Outlook

Market and OEM Industry Review and Challenges to the Group

The OEM refers to the one who undertakes the production and processing tasks outsourced by another company with "key core technology" of the products. The OEM model is common in the electronics industry and has become an inevitable choice for the brand manufacturers for its cost structure and on time delivery. Due to the rapid development of the IT industry and the continuous acceleration of product updates, it is not ideal to cover all product lines through its own production with outsourcing production becoming more attractive for cost saving purposes. OEM manufacturers generally have the advantage of large-scale production. OEMs are often able to deliver accelerated production start-ups and achieve high efficiencies in bringing new products to production and scale production more rapidly for changing markets and to position themselves in global locations that serve the leading world markets. With increasingly shorter product life cycles, these key OEMs services allow new products to be sold in the marketplace in an accelerated time frame. Therefore, companies are increasingly looking to reduce their investment in inventory, plant and machine and equipment used in manufacturing and prioritising capital investments in other activities such as sales and marketing and distribution and channel management and research and development and channel. This strategic shift in capital and resources deployment have contributed to growing demand for and interest in outsourcing to external OEMs who can reduce customers' overall

product lifecycle and operating costs. Especially for materials procurement and production quality control in large-scale production and manufacturing, OEMs have breadth of experience, which can effectively reduce production costs and achieve economies of scale. However, just as the electronics industry, the entry barrier for OEM industry is very low and its profit margin is limited, so when the gross margin profit of the market declines, only those with a large scale of production can survive. Due to the competitive environments, OEMs willingly reduce their profit margins in order to secure the contracting relationships with major brand manufacturers to meet their capacity. Especially, as the economy of China is opening up, China has attracted low-end and favourable investment conditions. As China has taken over the low-end manufacturing chain, the competition of the industry has been intensified, further reducing the profit margin of OEMs. This is why the Group has kept monitoring the current economic environment and market landscape and its potential impact on both the general economy and consumption power and preferences of customers we served as well as our end markets and closely manage and control our costs and capital resources so that the Group we can respond in a quick manner as circumstances change. As many of our costs and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for a product that represents a significant amount of revenue, can harm our gross profit margins and results of operations.

Labour Cost and Supply of China

As the Group largely deploys its manufacturing facilities in China, the development of OEM industry in China has a direct impact on the Group's business. Since the reform and opening up, China has attracted significant foreign investments due to factors such as low labour costs, preferential land use and favourable investment conditions. Chinese OEMs have emerged as the low-end industrial chain, taking over the demands and achieving impressive results. "Made in China" was once meant to be cheap manufacturing, but a significant decline in gross profit margin, an increase in raw materials and labour costs of OEM companies, the intensification of industry competition, the enhancement of the market power of alternatives and the enhancement of the bargaining power of the customers have made the sustainable development of OEM companies a challenging task. In fact, going after the cheap manufacturing cost in China is no longer a favourable option.

The minimum wages in most of the cities and provinces in China has been raised in the past few years. As of 1 April 2022, many cities and provinces have experienced another wave of minimum wages raises. According to the official data released by the Ministry of Human Resources and Social Security on 8 April 2022, the monthly minimum wage in China's 13 cities and provinces has crossed the 2,000 yuan (US$314) mark. In particular, Shanghai led the list with 2,590 yuan per month, and Shenzhen came in second with 2,360 yuan, following by Beijing's 2,320 yuan. Besides, affected by decades of strict birth controls and rising cost of marriage and giving birth, China's birth rate has been fallen for years, and the fall in birth rate has accelerated in the two years since the breakdown of COVID-19. According to the report of Financial Times on 19 April 2022, only 10.6 million babies were born in China in 2021, which was the lowest number recorded since 1949. Moreover, the report suggested that an expert even predicted that the government's pursuit of zero-COVID and the strict lockdown measures will exacerbate low fertility and marriage rates this year. The sluggish fertility rate will result in fewer workers and consumers contributing to economic growth. With the aging and shrinking workforce, the wage in China is expected to rise continually in the face of labour

supply shortage. According to the report of BBC Future on 6 June 2022, the manufacturing labour costs in China are already twice as high as in Vietnam. The uplifting wage is one of the reasons that many foreign-invested enterprises have chosen to move to the emerging countries such as India or Vietnam where the Group has already had its footprints on. In the above "Asia Segment" section, there are detailed explanations why the Group, upon request of customers, made the strategic decision to expand in India and enhance its competence and mitigate the risk of reliance on a single region.

Downward Revision of GDP Growth

After experiencing a chaotic 2021, the global economy is on the cusp of new crises in 2022. In the first half of this year, the war in Ukraine, along with lockdowns in major cities and ports in China due to the strict zero-COVID policy has generated a new set of adverse shocks and upended the fragile global recovery. "The war in Ukraine, lockdowns in China, supply-chain disruptions, and the risk of stagflation are hammering growth. For many countries, recession will be hard to avoid," World Bank President David Malpass has said. The ongoing supply-chain disruption derived from the pandemic, aided by the global geo-political risks, not only exerted a drag on the global economy while unavoidably pushing up inflation. Many nations have been facing considerable inflationary pressure nowadays, which leads the global central banks to have embarking on rate hike cycle. According to the data released by the United States Labour Department on 13 July 2022, the CPI rose 9.1 in June 2022, and inflation climbed to its highest level in 40 years. High inflation may push the Federal Reserve to move faster toward tightening. As of 26 July 2022, the Federal Reserve enacted its second consecutive 0.75 percentage point interest rate increase, representing the overnight borrowing rate has been tuned up to a range of 2.25%–2.5% as it seeks to tamp down the surging inflation without creating a recession. The moves in June and July were the most stringent action since the overnight funds rate was used as the principal tool of monetary policy in the early 1990s. Reflecting the disruption-crowded environment, many institutions have lower their economic growth forecasts for this year. According to the IMF's World Economic Outlook published on 26 July 2022, it has slashed its forecast for global economic growth to 3.2% and 2.9% in 2022 and 2023. The revisions mark a downgrade of 0.4 and 0.7 percentage points respectively, from its April projections. Likewise, in the report published by World Bank on 7 June 2022, global growth is expected to slump from 5.7% in 2021 to 2.9 % in 2022, and the growth is estimated to hover around this level through 2023 to 2024. It's worth mentioning that the report also warns the rising risk of stagflation, and points out that if inflation remains elevated, there may be a sharp global downturn along with financial crises in some emerging market and developing economies in the future.

Smartphone Market Outlook

Regarding the outlook of smartphone market, the negative impact on supply side lingered, while the demand dampened severely in comparison with last year due to the raising price of consumer products. In the beginning of this year, mobile phone vendors were facing increasing headwinds — continued geo-political tensions, ongoing supply chain constraints, and logistical challenges. Even worse, China authority started to adopt dynamic zero-tolerance policy against COVID-19 resulting in the lockdowns in several domestic communities and regions. Many factories of consumer electronic suppliers were located in the regions and was forced to be closed to contain the spread of coronavirus, which destroyed the stability of the

entire supply chain. Yet, since the inflation skyrocketed across all countries due to the increasing cost of materials, and government worldwide implemented quantitative tightening policy to fight for the inflation but brought about the side effect of economic recession, the consumer demand has been depressed under the difficult situation. As a result, although the supply continued to be disrupted, the demand was also dragged down in the meantime, indicating the adverse changes of supply and demand have gradually put the market in equilibrium and the entire smartphone is facing a huge downturn. According to the latest IDC report on 1 June 2022, the researcher has significantly reduced its forecast for 2022 from the previous projection of 1.6% growth rate to -3.5%. After three consecutive quarters of decline and all challenges in both supply and demand side, IDC expects global mobile phone shipments will decline to 1.31 billion units in 2022. More pessimistically, a leading smartphone chip maker, Qualcomm forecasted its smartphone sales to fall 5% this year, compared with its prior outlook for flat growth. "We expect the elevated uncertainty in the global economy and the impact of COVID measures in China will cause customers to act with caution in managing their purchases in the second half," said Chief Financial Officer Akash Palkhiwala. Focusing on the largest smartphone market, China, its handset volumes decreased in the first quarter as well not only resulted from above-mentioned setbacks in particular soft demand but also a high comparison base year. According to the data of CAICT, the smartphone shipments slid by 21.8% year-over-year in the first half of this year. In March 2022, the chairman of the world's largest semiconductor foundry TSMC, CC Wei said "Consumer electronics demand is showing signs of slowing amid geo-political uncertainties and COVID-related lockdowns in China, and the slowdown is emerging in areas such as smartphones, PCs, and TVs, especially in China, the biggest consumer market." Correspondingly, in the second-quarter earnings call, TSMC's chairman restated that the company saw sluggish demand in smartphones and PCs but its data center and automotive business remained steady. Meanwhile, in terms of a potential chip glut, CC Wei responded, "Right now, inventory levels are quite high suggesting weak demand which could put pressure on semiconductor prices. But inventory levels are being reduced and the current adjustments are made resemble a "typical cycle" for semiconductors." "We believe the current semiconductor cycle will be more similar to a typical cycle, with a few quarters of inventory adjustment likely through the first half 2023," Wei added. The viewpoint indicated that the end demand will continue to be unstable and may not reach a market equilibrium until the second half of 2023. Looking ahead the full-year 2022, IDC expects China market has a downside risk of shipping less than 300 million smartphones implied double-digit downturn if it continues to see an absence of a fresh stimulus. However, IDC still reserves a bright outlook for the global handsets market, forecasting the challenges to ease by the end of this year and the market to rebound in 2023 with 5% growth and achieve a five-year CAGR of 1.9% through 2026.

Although the entire smartphone downturned in the short run, on the bright side, as the situation more heavily impacted on 4G devices than 5G, mobile phone brand companies have already moved more aggressively with their 5G portfolios both in terms of production and price points. According to the analysis published by IDC on 1 June 2022, 5G devices would soar by 25.5% in 2022 year-over-year, and the total number of 5G devices would grow from approximately 700 million in 2022 to 1,159 million in 2026 at a CAGR of 13.5%. Further, 5G products would be shipped 53% of worldwide shipments at the end of 2022, this number would even grow to 78% in 2026. Other than mobile phone brand companies, infrastructure

companies also concentrate themselves to facilitate the adoption of 5G network. According to the Ericsson Mobility Report published in June 2022, 5G telecom subscriptions ascended by 70 million during the first quarter of 2022, to around 620 million. Ericsson estimated the subscriptions will grow up to more than 1 billion by the end of 2022. By the end of 2027, the 5G subscriptions would be accounted for 48% of total mobile subscriptions, with 4.4 billion subscriptions worldwide. Refer to the rollout of 4G, the 5G subscription is expected to penetrate faster than 4G, which was launched in 2009, resulted from the timely availability of devices from several vendors, the faster decline in the price of 5G devices. Echoing the above points, IDC also pointed out in its report that the ASP of smart phones reached a peak since the continued demand for premium models in developed markets, but as the 5G penetration rate become higher gradually, the overall price will fall accordingly. Specifically, ASP of 5G devices is expected to drop 8% to US$608 in 2022, and this number would decrease continuously to US$440 in 2026. Hence, in the foreseeable future, it is expected that along with the raising penetration rate of 5G network and devices, 5G would become the one of main drivers for the comprehensive smartphone market against the macroeconomic headwinds.

COVID-19 and Supply Chain Disruption

From the second half of 2020, the supply chain has been severely strained due to the ongoing COVID-19 pandemic and the surge of global cargo volume. This year, compounding the damage from the persistent COVID-19 pandemic, the Russian invasion and the prolonged COVID-lockdown in several regions of China have extended disruption to global supply chains, which was a hindrance to the growth of the electronics marketplace, trickling down across the supply chain from the consumer electronic segment including smartphones, personal computers and even home appliances to the automotive segment, leading to price surges in every segment. According to the report of CNBC on 11 March 2022, the Russia-Ukraine war severely disrupted shipping and air freight, and a head of professional services at supply chain software platform has noted that the growing number of carriers that have suspended services in Russia made up about 62% of total ocean freight capacity. Furthermore, as the key port of Shanghai reopened in June from a two-month lockdown, it could put further stress on the supply chain. However, as new container vessels were delivered and demand from shippers softens from pandemic highs, the port congestion was also improving in the meanwhile. The head of DHL's freight-forwarding unit predicted that the port congestion is going to ease in 2023, but not enough to restore global supply-chain flows to where they were before COVID-19. In response to the persistent supply issue, Intel CEO Patrick Gelsinger also revealed that he initially expected the semiconductor shortage to stabilise next year, but has adjusted his forecast to 2024, as per the report of Fox Business on 23 May 2022. He stated that the recent COVID-19 shutdowns in China changed his outlook. He also emphasised "What we've seen in Shanghai was startling, that because of the COVID-19 policies, we've seen the port shut down, which created this backlog of equipment to get through that's even worsening some of the supply situations that we've had,". On the other hand, the supply chain issue also led to escalating prices for copper and other manufacturing metals, which have spurred the bump in pricing for electromechanical devices and passive components. Some common electronic components such as ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. continue to be subject to compressed supplies, with rising prices and extended order lead times persist in 2022. Overall, the Group held a conservative point of view and thought the supply chain disruption situation would not alleviate until the

second half of 2022. While several industries have taken proactive steps to mitigate ongoing supply strain, and global semiconductors manufactures have actively invested in new foundries and factories expansion to ramp up production capacities, however, the dearth of supply and its adverse influence will be dragged on for a certain period.

China's zero-COVID policy, which has led to long lockdowns in major cities and suspended operations in factories, businesses and schools, is taking a bigger bite out of the country's overall economic growth. The biggest problem is the mobility of people, that is, the limitation on the movement of personnel in different cities. Even if there is a way to resume work, workers cannot go to the factory, so the goods cannot be produced. As a result of the stringent lockdowns and supply chain gridlock, more foreign businesses are reconsidering their investments in China and consider shifting current or planned investments out of China to other markets. Growing tensions between the U.S. and China and the persistence of COVID-19 pandemic, coupled with the resulting restrictions, have renewed and intensified calls in the U.S. and other countries for reducing dependence on China. While these sentiment and action are not expected to lead to decoupling or a major immediate shift, the pandemic is expected to increase the speed of relocation of lower-value manufacturing. According to Anwita Basu, head of Asia country risk research at Fitch Solutions published in Bloomberg, "Many companies have already begun adopting a "China Plus One" manufacturing hub strategy since the U.S.-China trade war began in 2018, with Vietnam having been a clear beneficiary". This trend may persist due to the currently observed bipartisan support in the U.S. for a tougher approach to China, increasing the possibility of the trade war and sanctions intensifying in the future. Amid further escalation of the tensions, many companies have increasingly hedged against risks of tariffs by establishing operations and markets outside of China for their overseas business. Moreover, in March, the China government started to implement China's "zero-COVID" Policy aiming to curb the spread of virus. Many factories had been forced to temporarily shut down or even closed permanently, which posed more threats on factories' production capacity in China. According to Business "Confidence Survey 2022" which published by European Union Chamber of Commerce in China on 20 June 2022, "zero-COVID" Policy had become a threaten for a bunch of European companies, 92% of them believed their supply chain has been serious affected by China's recent port closure, the decrease in road freight and spiralling sea freight cost. Besides, 60% of them regard their operating performance would be hit in both top line and bottom line through such challenges. Although European companies remain overall trusted to the China market, the continuing spread and unpredictable evolution of COVID-19 may cause those companies voting with their feet, turning and relocating the product lines to the other predictable market. With competitive labour costs, Vietnam and other Southeast Asian countries are benefiting from a shift in global supply chains. Vietnam reported 19% growth in exports last year and is becoming a key exporter of electronics and computer components.

India Handset Market

In India, high domestic volumes and consumption, and higher outsourcing volumes would facilitate multinational EMS/ODM to bring in the component ecosystem locally and enhance local capabilities of component sourcing, thus making the local ecosystem stronger and closer. Especially, the extensive financial costs involved in setting-up manufacturing, capacity additions/expansions, R&D and manpower, Tier-2 players (companies supplying products to tier 1 companies/OEMs) are increasingly to leverage local EMS/ODM services. Besides, along with the numerous incentive schemes, allowing Indian electronics manufacturing to growth,

reduce dependence on the imports and promote the exports, including (a) PLI Scheme (at a value of INR2,000 billion); (b) Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (providing financial incentive of 25% on capital expenditure); (c) Modified Electronics Manufacturing Clusters Scheme (EMC 2.0) (provides financial assistance for setting up of EMC projects); and (d) Merchandise Exports from India Scheme (MEIS) (the incentives under the schemes are calculated as a percentage, which is 2%, 3% or 5% of the realised FOB (free-on-board). Thanks to that, India's electronics market value is expected to growth at a CAGR of 18% from US$124 billion in the financial year ended 31 March 2022 to reach US$240 billion in the financial year ending 31 March 2026. Furthermore, on the demand side, emerging technologies, such as IoT, AI, 5G and the introduction of robotics and analytics in the industrial and strategic electronics segment, have led to the overall development of numerous electronic products, which has boosted local demand. Also, owing to the government's various initiatives to promote EV sales in India, the EV market is gaining more attention as the EV is reliant on the electronic sector for a range of components. However, although benefited from high domestic volumes, consumption, and government's incentive schemes, India is still difficult to immunise from the global headwinds under continuous COVID-19 affection, supply chain constrains, and inflations. According to IDC's publication, India smartphone shipments has been declined for the last third consecutive quarter, shipping 37 million smartphone units in the first quarter of 2022, a drop of 5% over last year. Adversely affected from rising inflation and extension of the smartphone refresh cycle, IDC further indicated that while smartphone supplies gradually back on track, the attitude for 2022 remains prudent from the consumer demand standpoint.

Product Perspectives

In parallel with the above market perspective, it is important to view the product perspective. From product perspective, with the popularity of innovations and technologies, the smartphone industry has become commoditised and highly homogenised with standardised specifications leading to increased market competition as the industry became more fragmented with the modular industry structure reducing entry barriers. The smartphone has matured as an application, driving innovation in design and features and appearances. IDC announced a feature prediction towards China's smartphone products in the next few years, including a larger RAM capacity, higher penetration of OLED screens, under screen fingerprint, artificial intelligence (AI), facial recognition, AR/VR/3D modeling and 5G functionalities. According to a statement on Samsung's official website, 5G devices tend to consume more battery than 4G phones because of the current limitation of 5G signal coverage. Therefore, 5G phones have to constantly search for a strong signal, switch between 4G and 5G networks and spend much time hunting for a good connection, which result in a faster battery consumption. As a consequence, battery life of 5G phone is considered one of the most common pain points for consumers. To address 5G battery life issue, many smartphone manufactures have begun to optimise phone specifications and largely improved battery to a high capacity of 5,000 mAh with upgraded fast charging feature to attract customers. With enhanced specifications and differentiating features, the display refresh rates became one of the most important differentiators for brands to position their products across low-end, mid-end and high-end, from the basic 60Hz to the highest available 144Hz, and it is expected that 120Hz would replace 90Hz to become the new standard for the most of products while 144Hz will continue to take the premium flagships. Besides, camera innovations are still expected to be a one of the most important watersheds between those brand companies, because smartphone cameras are no longer just the convenient option for the user, they actually becoming the replacements

to beat traditional digital still cameras. Experts from TECNO, Samsung, and DXOMARK Image Labs, revealed a series of tendency of smartphone camera innovations 2022 at a webinar which held by Counterpoint Research, including adoption of a stronger image stabilization with advanced OIS (Optical Image Stabilisation) system, a low light improved high-resolution sensors with pixel binning, the continuous optical zoom technology which allowing a smoothly shifting between different focal lengths, a RGBW (Red, Green, Blue, White) sensor which increasing brightness and reducing colour distortions, a localised colour enhancement AI algorism, and so forth. Last but not least, foldable phones are still a big hit in 2022, several mainstream smartphone brands have released their flagship foldable products coincidentally. As the speech from George Zhao, CEO of Honor, at the Mobile World Congress 2022, foldable phone is expected to become the mainstream series of smartphone in the near future. Counterpoint Research shared the same viewpoint that driven by improved hardware design and competitive pricing strategy, foldable phone shipments may expect a 10x growth in 2023 compared with 2020. IDC also stood that foldable phone show a major potential for smartphone vendors because it represents one of the most innovative and obvious difference from other products.

Privacy Issues

Apart from product features, online privacy issues including personal data leakage or improper exploitation by third parties have been a major concern for the majorities, with 57% of users expressing their concerns about privacy online, based on a survey conducted by Ericsson on 6 May 2021. With increasing privacy awareness, technological giants such as Apple and Google have taken multiple initiatives to cope with privacy concerns while protecting user data from being unwittingly collected by third parties. Apple has made a huge step forward in privacy protection by turning off IDFA, the so-called Identifier for advertisers, by default in IOS version 14.5, which was released on 26 April 2021. Under this version, advertisers will not have access to user data unless the users give them permission to track them. On top of that, Apple highlighted its upgrades to privacy protection at Worldwide Developers Conference on 7 June 2021. One major privacy upgrade that has drawn attention was the new Privacy Relay feature, an internet privacy service embedded in iCloud designed to secure that all traffic and route leaving a user's device are fully encrypted. Further, on 13 December 2021, Apple released IOS 15.2 which added "App Privacy Report", a feature designed to let users know how often apps are accessing permissions-restricted info like the camera and the microphone, and also "Digital Legacy" program which could enable user to authorise specific person to access their digital data after they passed away. On the other hand, Google also announced a host of privacy-focused features across its diverse products at its I/O conference in 2022 and introduced a major software update to Android 13 that offers brand-new privacy features, trying to enhance users' privacy and trust in the apps. Through a new Protected Computing plan, Google will continue its efforts to remove any personality identifying information from users' account data and keep strengthen its encryption mechanism on operating system and devices. Other than that, privacy issue is also catching government's eyes. As CNN Business's report on 9 May 2022, Clearview AI, a controversial facial-recognition software company, agreed to restrict its sales to most companies in the United States. The agreement is part of a settlement of a lawsuit that was filed against Clearview AI in Illinois state court which charged the company violating Illinois' Biometric Information Privacy Act (BIPA) that requires companies to get consent from people before collecting or using their biometric information. Hence, it is no doubt that privacy and online security are of paramount importance these days as consumers increasingly shift their daily activities to online platform.

Keen Competition and Margin Erosion Pressure

As the smartphone industry is dynamic and competitive, a slowdown in growth leads to industry consolidation, which results in larger and more geographically diverse competitors having significant combined resources to compete against the Group and may put pressure on the supply chain. As competition remains fierce, competition from EMS/ODM/OEM peers is deemed to intensify to create pressure on the Group's business and there may be a slowdown in new customer acquisition with rapidly growing smartphone vendors. The Group also faces competition from the manufacturing operations of its current and potential customers (including the Group's strategic partner, HMD), which are constantly evaluating the advantages of manufacturing products in-house against outsourcing, OEM against ODM. All of these developments could potentially cause pressure on the Group's sales, and the sales mix and customer mix, potentially leading to margin pressure, loss of market acceptance of its services, compression of its profits or losses, and loss of its market share. To address the above challenges and uncertainties and to alleviate the impact of price erosion on gross margins, the Group must remain lean and agile by making quick business and operational decisions. The cycle time of new product development must be shortened to align with the product launch schedule of customers and shorten the time to market. Besides, the Group will keep developing higher margin businesses inclusive of IoT devices, 5G applications and automotive software and hardware. Following the Hon Hai Technology Group's objective, the Group's future business plan would focus on margin escalation instead of revenue growth and continually monitor the market competition conditions to respond accordingly.

R&D Competence Building

To meet its customers' increasingly sophisticated needs, the Group has kept investing in R&D which is core competence of the Group, and cultivates global research talents (like in India) to secure the competency and is continuously engaged in product research and design activities to manufacture its customers' products in the most cost-effective and consistent manner, with a focus on assisting its customers with product creation, development and manufacturing solutions thereby further strengthening competencies. Due to the ever-intensifying competition in the smartphone industry, companies are spending more on R&D. For smartphone makers, the scope of differentiation has been reduced due to each company aggressively investing in R&D. While on the one hand, this helps the companies grow the popularity of their smartphone models, on the other, it has become essential due to rapidly evolving customer needs and preferences. The Group has dedicated PD (Product Development)/PM (Product Manufacturing) and R&D teams that are composed of experienced talents with superior industrial design capabilities and solid experiences in mass production, which gives the Group its own capabilities of creation, and ability of continuously improving qualities, yield rate, mass production, and customised design. To keep maintaining competitive edge against industry rivals, the Group's design centers are undergoing the optimisation practices on product development process to achieve increased agility and also to meet the tremendous pace of technological changes and customers' needs. The design centers are proactively establishing product portfolio and use it as a marketing tool to approach potential clients; this approach can increase the product development efficiency. The product development cost can be shared by various clients; hence, the implementation for this approach can enhance the competency. To aggressively keep abreast on the latest industry trend, employees are encouraged to keep up with new mobile device industry's technological knowledge (e.g. 5G)

and to embrace new technological requirements for stepping into the Internet of Vehicle (IoV) and medical devices industries. Seminars and technology roadmap sharing meetings are hosted with clients and key component suppliers and targeted vendors who are defining or leading in particular technological categories to keep employees connected with innovation trend. Internally, design centers are striving to promote an atmosphere for keeping abreast of new technologies by granting rewards to encourage R&D staff for submitting patents applications and hosting inter department technology sharing sessions, and attending trade shows.

The Group's design centers are in close proximity to worldwide leading clients and new technology zone. They are also located in those highly competitive markets in the mobile devices industry. They are able to provide services from product innovation concepts to final product productions, in whole or in part. Their full R&D function resources, global manufacturing supports, extensive experienced teams in serving worldwide clients' requirements for large demand and complex product projects become fundamental for tightening business relationships with customers. Their proven record of serving worldwide clients demonstrates the ability and adaptability to serve not only brand customers but also leading telecommunications operators. The one stop R&D services model along with experienced program/engineering service and in-house manufacturing capability can significantly decrease customers' program management efforts; hence, the customers can then focus on their core in promoting their brand products. These value added services uphold the customer-centric service mindset. As a whole, the R&D team helps to deliver corporate strategies; so that it highlights promising ways to reposition the business through new platforms. The R&D team is serving as the Group's innovation engine. Offensively, the R&D team's role is the leading vanguard for the Group's transformation in outreach in different fields; defensively, its full service function differentiates the Group's R&D team from pure manufacturing service factories and/or R&D service companies. The R&D team stands in solid position to promote the Group's manufacturing resource advantage to customers in product designs. The R&D team also contributes to the manufacturing upgrades and assist factories for the digitalised manufacturing process. All these have allowed the Group to develop a full range of smartphones and feature phone products with innovations in industrial design, camera and audio applications to differentiate the Group's products from market competition and enable the Group to penetrate global mobile market share. The Group has fully utilised the strength of the Hon Hai Technology Group in vertical integration for product creation. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Technology Group, providing scale, solid experience and control in key components) are especially attractive for Chinese brands. The Group's ability to continuously upgrade its technologies and stay ahead of its competitors will be a big determinant in the Group being able to maintain competitive advantage and secure margins. The R&D team will continue to innovate on technologies such as industrial design, image and audio quality, user experience, AI technology, etc. which will be adopted by various products that the Group will offer, including not only mobile phones, but also data modules, network products, IoT devices and automotive products. The R&D team leverages on the entire product portfolio of mobile and wearable devices to address the opportunity for consumer IoT market and differentiate the IoT products with advanced voice user interfaces and better audio and video features. With over 15 years' experience in consumer products development and over 10 years' experience in Android software development, the Group will contribute its great capabilities in software and hardware integration and optimisation to roll out disruptive products for automobiles (telematics box, in-vehicle infotainment system, smart cockpit, etc.), taking advantage of the

Group's extensive knowledge of user experience and software development in mobile ecosystems to seamlessly integrate the automobile into the driver's mobile-centric lifestyle. The Group had made further investment in R&D of new technologies to ensure future business momentum and identify and address the changing demands of customers, industry trends and competitiveness. In India, the Group has been building up its R&D capability and capacity.

Exploring New Opportunities

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

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

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in 2022. In 2020, the Group has carried out large scale rightsizing and restructuring to eliminate redundant assets and become leaner and has continued to carry out the rationalisation works which improved utilisation and realised cost savings. The Group has implemented and maintained sound and effective systems of internal control and 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 2021 corporate governance report, which forms part of the 2021 annual report of the Company as issued and published on 13 April 2022.

Key Risks Faced in the First Half of 2022

Regarding key risks faced in the first half of 2022, please refer to the major risk items below.

Industry Risks

Risks Pertaining to the Handset Business

As mentioned above, there was a year-over-year decline in handset shipments due to the smartphone market saturation, which has been exacerbated by the COVID-19 outbreak and Ukraine warfare. It is widely acknowledged that the smartphone market is stagnant. A lack of perceived innovation keeping consumers from upgrading means consumers hold on to their handsets for longer. This extended retention rate has had a notable impact on the market. The proportion of consumers with low-end and mid-range handsets has grown, impacting sales and revenue for manufacturers, retailers and operators. The COVID-19 pandemic has severely disrupted the balance between supply and demand in the smartphones market. Since China is the global manufacturing center for most of these devices and components, and with nationwide lockdown, the smartphone manufacturing sector has been adversely hit by delayed shipments and weakened development of next-generation products. Also, the country has witnessed being choked off from suppliers, workers, and logistics networks. Moreover, consumer demand for smartphones, especially of the premium segment, has witnessed a decline due to the tendency of customers to cut down on luxury spending and focus on essentials due to the pandemic. The increased geo-political risks induced by the Russian invasion of Ukraine will weigh adversely on global economic conditions and GDP growth throughout 2022 and boost inflation significantly, exacerbating the policy trade-offs facing central banks around the world. While sizeable, these effects do not appear to be large enough to derail the global recovery from the pandemic. However, the future of the war is highly uncertain, and unforeseen developments in the conflict could generate further changes to geo-political risk and worsen its economic effects. Inflationary pressures resulting from supply chain constraints and geo-political tensions are leading to sustained increases in the prices we pay for some components and may also result in increases in the pricing of commodities such as copper and other metals that are used in the manufacture of such components and we may attempt to adjust our product pricing to reflect such changes. But we may not be able to increase our product prices enough to offset these increased costs, our gross margins could be affected. The existence of a high number of market participants in OEM market due to low entrance barrier in all areas results in competitive pricing and aggressive pricing is a common business dynamic and our customers are extremely price

sensitive, which reduces market revenue potential and pricing pressure continued to be high and it is hard to win new business and we may have to offer prices as low as some of our competitors and it is difficult to maintain historical or target margins. Sometimes, competitors provide EMS services at prices we are unable or unwilling to offer and the Group has to control cost and increase cost competitiveness. The aspiration level of Chinese workers has increased and they are focusing on high-tech jobs, leaving gaps in the low end of manufacturing value chain. Coupled with the city shutdown and travel restrictions, this has led to scarcity of the labour and a higher cost due to lack of availability of the manpower and it is very important to maintain adequate utilisation of our workforce. As a result, the general state of the global economy, COVID-19, component supply instability, and logistics cost surges, geo-political risk, market competition and consumer behavior change, which coupled with the risk that the Group's customers may change their outsourcing strategy and may not be successful in marketing their new 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 and recovery. To tackle this, the Group has to control BOM (Bill of Materials) costs and manufacturing costs and improve efficiency, productivity and yields, and counter gross margin erosion pressure while continuing to monitor the impact of factors affecting the business of customers and their financial health. But because of component instability, it is difficult to control component and raw material availability. As component prices are on an average, key focus lies on the labour costs and yields. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans. The Group has ceased to manufacture loss making Nokia-branded smartphones in 2019 and HMD has adopted multi-ODM strategy and the Group now only manufactures feature phones for HMD. With all those negative factors such as unfavourable product mix, increasing pricing pressure, low utilisation and price hikes in some 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. The mix of products ordered by and shipped to major customers will affect the Group's gross margin as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services and higher concentrations of lower margin programs affected overall gross margin. Some customers may consider insourcing previously outsourced business or some of the future productions so as to optimise their capacity and asset utilisation and save costs. Because of the uncertainty caused by COVID-19 and drop in demand, instead of placing orders of large quantity, customers place more frequent orders of smaller quantity and production schedules from our customers in terms of volume and mix of products or services may fluctuate and this makes it very difficult to forecast order book. With shorter demand forward visibility, the Company has to control and optimise inventory and working capital and material open purchase order risk in this tough period of time. As a whole, the challenging conditions that the Group has faced since late 2017 have continued into 2022 and there is continued pressure on the Group's gross margins generally. Because of keen competition and surplus capacity in the market and as a result of some of the Group's customers facing strong headwinds, gross margin erosion pressure of both casing and system assembly business are unprecedentedly high and such pressure has continued into 2022 with an arduous recovery path ahead.

In addition, an increase in the frequency of some customers diverting business to the Group's competitors, changes in the volumes they outsource or price erosion pressures may also result in our taking future further restructuring or downsizing actions. The Group will have to incur

higher operating expenses during periods of transitioning programs to the competitors. Any such restructuring or downsizing activities, if undertaken at all, could adversely impact the Group's operating and financial performances in the short to medium terms, and may require the Group to further adjust its strategy and operations. As a whole, it needs time to return to pre-pandemic levels and the Group will continue to control costs and remain agile and monitor market landscape and customer performances and utilisation of assets and assess the need to do rightsizing at the appropriate time in order to remain lean and agile. To compete effectively, we must continue to provide technologically advanced manufacturing services, maintain strict quality standards, respond flexibly and rapidly to customers' design and schedule changes, deliver products globally on a reliable basis at competitive prices and seek to create enhanced relationships with our customers with our advanced technology and engineering solutions. In the long term, as overall demand may increase when geo-political tensions vanished, market participants will be able to expand through technological investments. Thus, the impact will lower in the mid to long terms.

COVID-19 Pandemic

Business and results of operations of the Group have been and are expected to continue to be adversely affected by the COVID-19 pandemic, the extent of which is uncertain and difficult to predict and quantify.

Since 2020, the global spread of COVID-19 has created significant macroeconomic uncertainty, volatility and disruption which have adversely affect our and our customers' and suppliers' businesses and liquidity and cost of capital. As a result, the continued spread and resurgences of COVID-19 has caused further disruptions in our supply chain and customer demand. Actions taken by operations in China, India and Vietnam to minimise impact of COVID-19 were expanded on. The Group has been closely monitoring the current public health challenge linked to COVID-19 and applying all recommended health and hygiene practices and following local government's heath safeguards to combat COVID-19 to all aspects of our operations in the affected markets.

After two years of lockdown and numerous COVID-19 variants, Southeast Asian governments are beginning to shift their policies from treating COVID-19 as pandemic to co-existing with the virus. Multiple governments have announced timelines to ease pandemic restrictions and revive their economies. The increasing vaccination coverage and re-opening international travel have so far taken precedence in facilitating recovery. Vietnam has dropped all testing and quarantine requirements regardless of vaccination status, and become the only Southeast Asian country that has reopened international tourism without any pandemic restrictions. In India, last summer, the country was devastating by delta-led wave and pushed up daily cases over 400,000 overwhelming hospital resources. After the aggressive lockdowns along with the rise in vaccinations, the spread of COVID-19 has been slowed down and students started to head back to school, which is a sign of life normalising. Though India still has thousands of single-day infections, hospitalisations were low and the majority of cases were asymptomatic. Co-existing with the virus is a consensus in the most countries seeing as a main solution for economic resuming.

However, in China, the authority adopted a strict and inflexible zero-COVID policy to curb the virus outbreak, which is a huge drag on global economic recovery. The aggressive domestic lockdown exacerbated the vulnerable consumer sentiment and the supply instability, and had an adverse impact on electronic suppliers whose most factories are located in the restricted regions. In March 2022, the biggest mobile phone assembler had to close one of its main factories in Shenzhen but attempted to keep the manufacturing capacity operating as much as possible to reduce disruption. Another Taiwanese renowned OEM also suspended assembly plants temporarily. Some electronics suppliers were using "closed-loop operations" to keep production going in China. China's export growth slowed in April to its weakest level since June 2020, while imports were stagnant indicating the depressed domestic demand. Yet, as the restricted cities especially Shanghai and Shenzhen are logistics hubs and key ports of China, the impact of COVID-19-related lockdown has been not only harmful to China solely but globally and widely.

The ultimate size and extent of the impact of the COVID-19 pandemic in particular China authority's prevention policy on the Group going forward will be dependent on abovementioned future developments which cannot currently be predicted, among many other factors, all of which remain highly uncertain and unpredictable. Even after the COVID-19 pandemic has subsided, the Group may continue to experience adverse impacts to our business as a result of the pandemic's global economic impact, infection resurgences in different countries, the length and severity of the crisis, vaccination adoption rate, speed of market recovery, government spending cuts, government actions in response to the crisis, the speed at which our suppliers and logistics providers can return to and maintain full production and reduce supply lead time and stabilise component price, the impact of supplier prioritisation of backlog, and tightening of credit markets or increased unemployment that has occurred or may occur in the future. We continue to monitor the global outbreak and spread of COVID-19 and take steps to mitigate the potential risks to us posed by its spread and related circumstances and impacts.

Risks Associated with U.S.-China Tensions and Global Uncertainties

The Group continues to operate in an uncertain global economic and political environment. Concerns over worsening global economic conditions, financial turmoil, geopolitical tensions, energy costs, surging inflation, and the availability and cost of credit, have contributed to increased global economic and political uncertainty. The political environment in the U.S., tensions between the U.S. and other countries, and the evolving Russia-Ukraine conflict, have contributed to such uncertainty. Trade actions between the U.S. and China have made production from China less cost competitive than other low-cost countries in recent periods. Uncertain global economies have adversely impacted money market and currency exchange rates whilst inflation may lead to higher costs for materials and wage increase. We cannot predict the precise nature, extent, or duration of these economic or political conditions and the impact on our financial results.

The tense relationship between two giant entities, U.S. and China has no sign of relief, and the trade blacklist for China's companies has not withdrawn either. However, under the challenging economic situation and skyrocketing inflation, American government took economic resuming as its priority to deal with, instead of preventing from the rise of China. The Biden administration is debating whether it should remove arbitrary tariffs on Chinese

goods to curb soaring inflation, or continue to use tariffs to restrain China. The former U.S. ambassador David Adelman forecasted that the removal of tariffs on imported Chinese goods will strip 1% off inflation in the U.S. over time, which is a lifesaver for U.S. suffering from the pain. Besides, a Democratic senator admitted that some tariffs are really harming Americans more than Chinese. In reality, starting from 2018, the former Donald Trump administration has wielded the tariff stick on US$360 billion worth of imported Chinese goods to curb China's economic growth. Yet, the reckless trade war has failed to meet most of its goals, neither narrowing down the U.S. trade deficit with China nor driving manufacturing jobs back to the U.S.. Though the issue is in the early stages of discussion, any change of U.S. policy and viewpoint toward China will be a key element to influence the situation of global economy.

Operational Risks

Reliance on Key Customers and Credit Risks and Impact of COVID-19

We are dependent on the success of our customers and the markets in which they operate. When our customers or the markets in which they operate experience declines or grow at a significantly slower pace than anticipated, we may be adversely affected. We are dependent on the continued growth, viability and financial stability of our customers. The Group's five largest customers account for 91.9% of the Group's total revenue. The Group has strong established relationships with these major customers and it is a big challenge to maintain bargaining power with these customers in such a dynamic and highly competitive marketplace with surplus manufacturing capacity and shrinking demand. Because of the intense competition among our customers and their competitors, our customers have to reduce prices for their products and increases the pricing pressure placed on us. The Group relies on a relatively small number of customers for a substantial portion of our sales, and our ability to replace declining sales from end-of-life programs and customer disengagements with new business wins and declines in sales to these customers could reduce our net sales. Please refer to section headed "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and our actions to manage such risk. The majority of the Group's trade receivables are from the key established customers whom the Group has strong established working relationships. The credit terms granted to them are in the range of 30 to 90 days and are in line with those granted to other customers of the Group. Given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group have been deferred, the Group has increased its expected credit loss percentage for trade receivables during the current period. Management expects the default rate will increase accordingly due to the impact of COVID-19 and tough economic environment and Ukraine warfare. By referring to the Moody's default rate in April 2022, there is an increase in the default percentage and additional expected credit loss allowance was made for all overdue amounts of the Group. As market is volatile and competitive and because of COVID-19 and associated lockdowns, city shutdowns, border control, component constraints, slow down of general economy, Federal Reserve balance sheet tightening, soaring inflation and interest rate hikes and current credit and market conditions and increasing cost of borrowing could have impact on the businesses and operating performance and access to debt and equity financing and liquidity and cash conversion cycle and financial condition of some of our customers, including any impact on their ability to meet their contractual obligations and trade account payables. Such financial difficulties,

which maybe temporary, if experienced by one or more of our customers, may negatively affect the demand from these customers, the extension of payment terms, the potential risk of inability of these customers to make timely payment or to purchase inventory we acquired to support their businesses. Likewise, we remain in close contact with our customers to understand the impact of COVID-19 and other unfavourable factors on their businesses and the resulting potential impact on our business. The Group will keep monitoring credit position and late payments of customers and collections from customers and assess default risks and review adequacy of provision for Expected Credit Losses. In particular, the Group's finance team will continue to monitor closely business performance, cash position and liquidity, late payments, financial stability, slow progress of fund raising of HMD and its credit status and going-concern risk and will take necessary actions to mitigate the risks. The Group has some small customers and the exposure to financially troubled customers may adversely affect our financial results. Especially due to the hit of COVID-19 and lockdowns, some of the small customers may experience financial difficulty and the Group could have difficulty recovering amounts owed to us, or demand for our products and services from these customers could decline. If one or more of our customers were to become insolvent or otherwise were unable to pay to us in a timely manner, or at all, our financial results and condition could be affected and there is need to increase expected credit loss allowance and in days of our accounts receivables and write-off of inventory and working capital requirements due to higher inventory levels. Any of these risks may be heightened by the effects of the COVID-19 pandemic and dampened market sentiment which has been lingering and uncertainties associated with Ukraine warfare and resultant soaring inflation.

Regarding the U.S. government's blacklisting, export controls and bans and unrelieved sanction against one of the Group's original major customers, it was forced to withdraw from the market and the Group's sales to this customer dropped dramatically this year and the reliance on this customer diminished quickly and those OEMs who used to provide services to this brand company have been fighting head to head to other OEMs trying to maximise the use of already surplus manufacturing capacity at a relatively lower price quotation. At the same time, the Group's customers have been either striving for greater market share from the above-mentioned brand company in the saturated market and hence the pricing of their products in the end market must be very competitive. On the whole, the gross margin of system assembly business was eroded seriously. However, the Group has dedicated abundant resources to serve all other customers and foster and maintain long term business relationship and develop new customers and industry sectors and continues to adjust the business strategies, switching from revenue maximisation to continuous profit improvement. Instead of seeking for increasing smartphone market shares, we keep diversifying product portfolio, in particular the higher-margin product lines. Finally, the core business of the U.S. Internet customer is not in mobile phone sector and any change to the business strategy of this customer may affect our sales to this customer. But it is encouraging that this customer is keen to devote resources in mobile phone business. Finally, our customers may experience dramatic market share shifts in demand which may cause them to lose market share or pricing power or exit businesses.

End market demand slowed down and product life cycle is shortened and preferences by end customers may change, in order to reduce risk, most of our customers do not commit to firm production schedules for more than one quarter and we continue to experience reduced lead-times in customer orders and they may cancel their orders, change order quantities, delay production and shipment or continually evaluating the merits of manufacturing products

internally against the advantages of outsourcing and change their sourcing. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products and order fluctuations impede our ability to forecast the level of customer orders with certainty and makes it difficult to schedule production and maximise utilisation of manufacturing capacity and plan material requirements and control inventory and may lead to the write downs of excess or obsolete inventory that we may not be able to sell to customers or third parties. In that regard, we must make significant decisions, including determining the levels and volume of business and net income and affordable credit and business risks that the Group will seek and accept, setting production schedules, making component procurement commitments, optimising asset utilisation and allocating personnel and other resources based on our estimates of our customers' requirements and demand visibility and strategic decisions to maintain customer relationships and develop in some countries. Should any of our larger customers in this market fail to effectively compete with their competitors, they could reduce their orders to us or experience liquidity difficulties. Finally, there may be changes to existing business models (buy-and-sell versus consignment) and top line and gross margin and net margin will change accordingly. Buy-and-sell business model means a company buys the materials and adds value and then sells to customers whilst consignment business models means the customer owns the materials and consigns the materials to the contractor/OEM to do the processing works and then OEM ships finished products to the customer and records processing fee income in its financial statements. For ODM programs, we have been requested by customers to incur upfront expenses like consumables and tooling in order to meet the anticipated demand and we can only bill the customers when mass production starts. Any delays in the receipt of these money will affect the booking of other income. Also, we may not be able to pass those unanticipated costs in the ramping-up process through to our customers or otherwise offset them. As many of our costs and overheads and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for a product that represents a significant portion of revenue, can harm our gross profit margins.

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

engaging with a new customer and control credit amount in the very beginning. We will also buy credit insurance to give adequate cover to potential financial exposure. Our goal is to ensure that our terms of engagement appropriately reflect anticipated costs, risks and rewards.

Component Supply Risk and Instability of Component Supply

Most materials and components are supplied by third party suppliers and Hon Hai to the Group. Our performance can be affected by quality, availability and cost of such materials and components and supply instability will affect our production schedule and then shipment to customers. In particular, impact of delay or interruption in supply from a single-sourced component supplier can be catastrophic and we may be required to source these items from other third parties on a delayed basis or on less favourable terms. Our suppliers may face challenges in maintaining an adequate workforce or securing materials from their own suppliers as a result of COVID-19. As such, we continue to take steps to validate our suppliers' ability to deliver to us on time. As we are dependent on suppliers to schedule their manufacturing to produce products we need to fill customers' orders, procurement team of the Group spends great amount of time and effort to secure availability of materials and components. Changes in forecast or in customers' requirements can also negatively affect our ability to obtain components. As a result of the unsettled situation in Ukraine, we may experience, among other impacts, export restrictions and cost increase to shipping. In anticipation of supply instability, the Group may place purchase orders with longer-than-usual lead time in order to secure material supply for production and hence carry higher level of inventory. From time to time, customers do not always accept price increase we ask for in case of some component price increases. Supply availability and price fluctuations of materials and components are being constantly studied and followed.

Please refer to section "Impacts of COVID-19 and Supply Chain Instability" and "Key Relationships with Suppliers", and some other paragraphs for the details of our assessment of the risk presented to the Group and how to mitigate such risk. The risk of supply instability due to excessive concentration of purchasing sources remains low.

Financial Risks

Foreign Exchange Risks

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

Interest Rate Hike

When interest rates are higher, fewer people can afford homes and fewer businesses can afford to invest in a new factory and hire more workers. As a result, higher interest rates can slow down the growth rate of the economy overall, while also curbing inflation. Higher interest rates in the U.S. can have similar impacts on the global economy, whether by driving up their borrowing costs or increasing the value of U.S. dollar, which makes it more expensive to purchase U.S. goods. But what it ultimately means for consumers and everyone else will depend on whether the pace of inflation slows as much and as quickly as the Federal Reserve

has been forecasting. We have to keep monitoring if the move designed to give the American economy a "soft landing", i.e. slowing inflation down to keep prices stable and avoid a recession can function effectively as planned.

Technology Risks

Cyber Risk Controls

Regarding cyber risk, the Group has in place an information/cyber security policy which provides adequate security controls and protection of the financial data and business information. IT department has published a handbook which requires employees to follow strictly so that the cyber security risks can be managed and controlled across the organisation (particular for the network control) and make sure machine and system operate well and avoid any information leakage. Besides, IT department has a procedure and 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.

Referring to the announcement of Unaudited Consolidated Monthly Revenue Report for June 2022 of Hon Hai on 4 July 2022, it is cautiously optimistic about the outlook for the third quarter, but it still needs to closely monitor the trend of inflation. Their current visibility for this quarter is pretty much in line with market expectation, representing significant growth on year-over-year basis. Meanwhile, the outlook for the full year has also improved, which should be better than original flattish expectation. As explained, the Group's future business plan would focus on remaining lean and agile and asset light and margin protection and escalation instead of pure revenue growth and continually monitor the external macro environment and market competition conditions and COVID-19 development and component supply instability and supply chain situation and internal operational excellence to respond accordingly and continue to devote resources to enhance R&D capabilities. The Group will continue to face all kinds of risks in 2022 and there maybe need to continue to dispose idle assets and carry out restructuring works which may result in losses. The risks described below are not the only ones relevant to us or the industry or geographies in which we operate. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect and impair our business, results of operations, financial condition and cash flows and also business of our customers. If any of the following risks, some combination of the following risks or other risks that are not currently known or are now deemed immaterial, actually occur, our business, financial condition and results of operations could suffer. To the extent the COVID-19 pandemic and component supply instability and Ukraine warfare can adversely affect our business and financial results, it may also have the effect of heightening many of the other risks described in this section. Unless specified in the

relevant risk factors below, we are not in a position to quantify the financial or other implication of any of the risks mentioned in this section. In particular, 2022 risk factors and opportunities include:

Risk Factors of the Second Half of 2022

The Group's business, financial condition and results of operations are subject to various business risks and uncertainties. The factors set out below are those that the Group believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. There may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future. All of the risks in the first half of 2022 mentioned above will continue into the second half of this year. The Company continues to note the ongoing uncertainty and evolving situation surrounding COVID-19 impacting the timing and path of recovery in each market. Other risks include:

Demand Side

(i) Success of the Group ties together with success of our customers. A substantial percentage of our sales are made to a small number of customers, all of which usually operate in markets with severe competition. Market developments experienced by our customers and/or market acceptance of their new products or new customer development may from time to time affect the Group's business and it is difficult to project future order book of the Group and quarterly performances. Gross margin can vary from period to period and it is hard to maintain gross margin in the highly competitive marketplace with huge margin erosion pressure as different programs (both old and new) may contribute different gross margin, depending on the type of services involved, complexity of the product, business model, volume of the programs, and bill of material costs. Usually, in the early stages, manufacturing volumes are still low and the gross margin is low as new programs need time to ramp up and achieve economies of scale and there are unabsorbed manufacturing overhead costs to bear. Our customers are constantly seeking to reduce costs in their supply chain and increasingly impose cost-reduction requirements. While we focus on reducing our costs to address pricing pressure, we face huge pressure to achieve proportionate reductions in costs or sustain our current rate of cost reduction. We expect these pressures on pricing and costs in the mobile phone industry to continue. Any broad-based change in our prices and pricing policies may reduce our revenues and profitability.

    In June, Samsung Electronics is temporarily halting new procurement orders and asking multiple suppliers to delay or reduce shipments of components and parts for several weeks due to swelling inventories and global inflation concern and this is the sign that electronics makers are pessimistic about the economic outlook amid global inflation risks and this obviously delivered a deteriorating outlook in the second half of 2022. Better supply and downward pricing movement are to be anticipated from supply perspective; however, hand in hand, if true, demand will have to fall as well. Again, biggest challenge is market volatility and there is very limited visibility. There is marked downward correction in China, especially in lower tier phones. Higher income customers are willing to pay for a product they desire regardless economy circumstances.

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

(iii) To the Group, impact of Ukraine war is not large in the first half of this year. But food and energy and metals prices have zipped upwards rapidly and it is quite unlikely that they will correct in the near future. HMD distributes feature phones to Africa which is the world's poorest region which has depended on wheat from Ukraine. The war could spark starvation and could cause social unrest and political turmoil and feature demand can be hit. On the other hand, the Group's sales of smartphones to Europe segment is growing. The war is damaging consumer sentiment and hitting phones demand across the markets in Europe. That is, with consumption moderating, the greatest impact would be felt on non-essential products like consumer electronics. Therefore, there is need to closely monitor the impact of the shockwaves to the business and cash flow and payment abilities of our customers and end consumers and suppliers and the Group.

(iv) As explained, it may need quite a long time before shipment can be made to new customers as it needs time to develop new programs. It also needs a bit time before profit can be made as there are start up cost before shipment volume can reach breakeven point.

Supply Side

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

(i) Given that the zero-COVID policy remains the top priority in China with no foreseeable changes in the short term till 2023 when there maybe gradual movement away from these protocols. Chinese local authorities in other regions, with lessons learned from Shanghai, may be inclined to implement radical pre-emptive restriction measures if a rise in cases is reported to avoid potential political consequences. That means that the risk of future and sudden shutdowns and production suspensions is still there and this added unpredictability

to the domestic supply chains within China. Multinational companies are likely to focus on expansion in Southeast Asia and boost production in India and Vietnam in order to reduce its dependence on China as China is not likely to abandon its zero-COVID policy anytime soon.

(ii) As market is volatile, there is no assurance that component or material supply will be in tension again and strategic and efficient component and material sourcing and procurement are critical to our manufacturing processes and capacity utilisation and order fulfillment and contractual commitments. The need for us to reliably anticipate component needs is amplified in times of supply instability. Order lead time of some components can remain to be long and they are being placed on allocation by suppliers. As lead times are long and there is high likelihood of price increase for certain components, procurement team has to place purchase orders earlier and level of inventory may rise in the short term and inventory carrying cost and exposure to inventory obsolescence will increase. When prices rise, we try to pass the increases through to our customers or otherwise offset them. Most of our major customers' product supply agreement permit quarterly or other periodic prospective adjustments to pricing based on decreases and increases in material and component prices. But sometimes some customers may not pay the full amount we asked for.

The September quarter is important for supplies or sell-ins as most brands place orders for components of smartphones and other electronic devices, to stock up for the festivals. Sales of electronic products typically peak in October-December during Diwali, Christmas, and New Year. Thus, placing orders in advance is critical, considering that brands also launch new models in the run up to the festive season.

(iii) Because of geo-political tensions, energy/metal price hike may increase our costs and a significant increase of price is possible. Some of the materials that we use in our manufacturing activities are petroleum-based. In addition, we, along with our suppliers and customers, rely on various energy sources (including oil and natural gas) in transportation activities. It means that rising energy prices could cause an increase in our material and carriage costs and selling expense as transportation cost of suppliers shipping materials and components to us, and our delivering products to our customers will increase. Sometimes, we cannot pass along increased material and energy costs to our customers and we have to absorb the burden.

(iv) The Group has experienced (and continues to experience) shipping surcharges on ocean freight, premiums on air freight and trucks, capacity constraints for air freight and increased transit times in receiving materials as a result of shipping delays due to coronavirus outbreaks (like in Shanghai) and border controls (like Vietnam and China, China and Hong Kong) and labour shortage and related restrictions, additional safety requirements imposed by port and border authorities, and closures of or congestion at ports. Sometimes in-house logistics team has to use a combination of air and ocean and land transportation to send urgently needed materials to the factory in Vietnam or India. Shipping delays and logistics costs are anticipated to remain high until sea and air freight and cargo transportation capacity is no longer constrained. Port congestion should ease next year as new container vessels are delivered and demand from shippers softens from pandemic highs, but not enough to restore global supply-chain flows to where they were

before COVID-19, according to the head of DHL's freight-forwarding unit. "It's going to ease in 2023, but it's not going to go back to 2019," DHL Global Forwarding, Freight Chief Executive Officer Tim Scharwath said in an interview. "I don't think we're going to go back to this overcapacity situation where rates were very low. Infrastructure, especially in the U.S., is not going to get better overnight, because infrastructure developments take a long time."

Miscellaneous

(i) Continue to monitor adequacy of expected credit loss allowances and there may be need to make additional allowance in the second half of 2022. Also there is need to evaluate going-concern risk of a major customer.

(ii) Depending on the success of our customers and our effort to develop new customers, we may have to continue to implement rationalisation/restructuring actions as a result of changes in our strategy, the external marketplace and/or our exit from loss making or under-performing operations. Additional restructuring actions may be required once currently-contemplated actions are complete. Over the past several years, we have undertaken initiatives to restructure our business operations and optimise headcount with the intention of improving utilisation and realising cost savings and we have been extremely careful when handling restructuring as it may affect employee morale.

(iii) Vietnam's minimum wage has gone up 6% starting 1 July, two years after remaining unchanged. It is the first time since 2009 that the minimum wage increase takes effect in the middle of the year instead of the beginning of the year as has happened in previous years. It implied that inflationary rate in Vietnam is high. Salary costs in different countries may rise and increase our costs.

(iv) As the market is uncertain, according to IFRS requirement, at the end of the reporting period, there is need to review the carrying amounts of the assets (such as property, plant and equipment and right-of-use assets, financial assets etc.) to determine whether there is any indication that they have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. As business environment is tough, there may be need to provide impairment loss.

Macro-economics

After years of quantitative easing, the United States Federal Reserve has begun the process of quantitative tightening together with raising interest rates and cost of funds to curb rise of inflationary rate which most advanced economies are grappling with. Private consumption is likely to fall and smartphones sales can be hit severely.

Performance of associates and a joint venture

The investments in associates and a joint venture are accounted for using the equity method in the Group's consolidated financial statements. Unprecedented and uncertain global environment resulting in a wide range of potentially long-term consequences which may give rise to potential losses in operation and discrete losses or expenses such as those related to

goodwill and intangible assets in these associates and a joint venture. Under equity method, investments in associates or a joint venture are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and OCI (Other Comprehensive Income) of the associates or joint venture. The Group needs to share the result of associates and joint venture and the amounts are uncertain. The Group also needs to assess whether there is an objective evidence that the interest in associates and a joint venture may be impaired. When an objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

Opportunities

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

The fast growing India market is one of the Group's major focus. The Group has resumed India casing factory with own tool shop in 2020, with full enclosure manufacturing processes, co-located with Group's SMT/final assembly factory in Chennai Tamil Nadu. Local EMS capacity combined with Group's strong global multi-site research and development resources, offers variant scope of local service from IDM, ODM, JDM, EMS to fulfill current and potential customer's needs for new product Lines. The complete resource mapping readiness allows the Group closely follow India government's "MII" (Made In India) policy. Looking forward, the second half of 2022, the Group is seeking out 5G business opportunities in India, as the India government has officially announced that 5G deployment will begin in the country from August; thus, 5G smartphone will be booming. According to IDC prediction, 5G smartphone shipment in 2022 compares to 2021 will show a 142% increase, to the 62.8 million units in India. The 5G smartphone shipment growth has been primarily led by affordable models. Global and China top brand players are increasing their investments in India. From Canalys research, China smart phone brand makers take more than 68% of India smart phone market share. These top tier global brands tend to develop flagship model in house and release mid-low end models to ODM companies, the growing demand for affordable 5G smart phones will benefit the ODM companies. In addition to the 5G smartphone opportunity, the growing need for 5G switch and routers modem is also foreseeable. Aiming to the India's local network operators' need, the Group's R&D team is taking initiative to facilitate expanding asset pool by developing standardised modules to cater the India market. Apart from the differentiation service strategy for the China market, the Group is undertaking the volume driven strategy for India market with the intention to benefit the supply chain's management. These benefits translate into greater on-time delivery, lower inventory costs, bigger bargaining power especially in key components and increased flexibility.

To majority of the consumers, mobile phone is not only a tool to provide instant connect, it is also a major entertaining device. With the arrival of 5G era, consumers will networks promise better quality video on mobile devices; thus, consumers preference ship towards bigger screen models. One uptrend product line within the smartphone group is the

foldable phone product. The foldable phone is a potential game changing player with the possibility to outdriven tablets. It offers consumers a different user experiences with the increase of 50% of displaying area and ability to switch between single and dual display; these preferable features gain the market from innovators and early adopters type of consumers. According IDC, the foldable phone commercialise start from year 2018, in year 2020 foldable phone shipped 1.94 million, in year 2021 shipped 7.1 million and estimated ship 27.5 million in 2025; the market for foldable smartphones is expected to expand at a significant pace. At the current stage, the high degree of manufacturing complexity, as well as the high price tag, are preventing foldable smartphone adoption on a large scale. Technology and precise manufacturing capability is the greatest challenge for the foldable phone. The mechanical stability and physical durability design challenge are complex hinge design related. The Group formed a R&D task force with a special mission to obtain patent for hinge implementation and develop standardise hinge module solution. This along with the Group's well known precision manufacturing ability serve as a strong competitive advantage, this pioneer approach set the Group aside from ODM rivals. This cost saving solution will be attractive brand maker and ODM companies with limited in house R&D resources. This will also contribute to lower average selling price and boost up the rising mainstream demand. This solution will also benefit the Group's manufacturing services for that the foldable phone require precision production process.

The Group's overall strategy is to ride with wave and focus on uptrend products and industries. The casing factories has been facing strict competition in the mobile phone market as the production process is being mature and adopted by competitors, resulting in the shrinking profit margin. In order to seek out new business opportunities, all manufacturing sites are to remain flexibility in adopting new manufacturing processes. We invest in advance process by selling outdated machineries to keep up with the leading technology. The casing factories are getting capability ready by obtaining certification such as ISO13485, medical device quality management system and IATF16949, International Automotive Task Force for uptrend industries. The casing opportunities stand along with the advance process, and as the geo-political tension continues, global footprint stand in a flexible position in production site/delivery site. The casing factory can also be bundled with the Group's ODM service providing additional service other than casing production, this broadening in the service scope enables the casing factories to approach more potential business opportunities within mobile phone industry as well as other uptrend industries.

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

(ii) For the major customer which demonstrated substantial growth this year, we will continue to devote resources to penetrate this customer.

(iii) For the long term, market continues to expect a steady migration from feature phones to smartphones and 3G/4G to 5G smartphones. As efforts to spread low- and mid-priced 5G devices continue, the global market for 5G devices is expected to show healthy growth and act as a significant driver of the overall smartphone market.

Sales penetration of 5G-capable smartphones reached 49.5% globally in the first quarter of 2022, surpassing the penetration of 4G smartphones in a single quarter for the first time. China, North America and Western Europe were the biggest drivers of this growth. China had the highest 5G sales penetration in the world at 79.2% in the first quarter. The push for 5G from Chinese telecom operators, combined with the readiness of OEMs to supply competitively priced 5G smartphones to consumers, enabled this growth.

However, as mentioned repeatedly, the recent global inflation trends are hitting consumer demand and smartphone BoM costs, acting as a risk for the 2022 smartphone market. According to IDC report on 1 June 2022, worldwide 5G smartphone shipments expectation was revised down significantly to nearly 700 million units for this year, implying a less than expected 25.5% growth rate. Yet, in the long term, as the 5G network penetration increased in more countries, IDC expected 5G smartphone to reach a volume share of 78% in 2026, compared to 53% in 2022.

The Company refers to its announcement of 11 May 2022, which in turn referred to (among other things) the various factors attributable to the Group's consolidated net loss for the current period, which factors have continued and are currently expected to continue into the remainder of 2022.

Given all of the updates and other matters (including without limitation those relating to the COVID-19 pandemic, slowdown of general economy, geo-political tensions, soaring inflation and high interest rate) described above in this "Discussion and Analysis" section as well as the many variables that could affect the Group's performance, the Company considers it is currently too early and difficult to predict meaningfully and with any precision what further adverse impact such matters and variables might have on the Group's performance for the six months ending 31 December 2022 (2H 2022) and, ultimately, how the Group might perform in 2H 2022.

The Group's latest unaudited management accounts and other information currently available to the Company do not yet enable the Company to form a reasonable, clear and meaningful view about its likely performance for 2H 2022 and for the year ending 31 December 2022 (FY 2022). At this stage, the Company considers that an outcome which involves the Company breaking even, continuing to make a loss or turning a profit for FY 2022 remains possible.

Over the last several years, the Company has been proactively taking appropriate and reasonable steps to seek to maximise the Group's performance notwithstanding the various challenges over that period. The Company will keep matters under close review as 2H 2022 progresses, and will make further announcement(s), as necessary, to keep its shareholders and potential investors informed.

In the meantime, pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose in due course (which is currently expected to be in or about November 2022) certain unaudited consolidated financial information of the Group for the nine months ending 30 September 2022, and simultaneously upon such disclosure in Taiwan, the Company will announce the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan.

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

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

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

(iii) success of our customers' products in the marketplace and sales performance; business strategy adjustments; customer and sales and product mix changes; the ramping of programs for new or existing customers; customer disengagements or terminations or non-renewal of customer programs; product launch or product recalibration strategies and timing; possible cancellation or delay of customer orders or change of production quantities; market competitiveness; shifts in customers' demand and preferences and propensity to spend (e.g. in-house manufacturing instead of outsourcing); business model changes (like changing from buy and sell to consignment or vice versa); timing of ramp down of old phone models and ramp up of new phone models and the length of transition period from old to new phone models; potential decline of sales to a major customer and on-going customer diversification; end consumer behaviours; any broad-based change in the Group's prices and pricing policies may reduce its revenues and profitability;

(iv) local factors and events that may affect our production volume, such as local holidays (e.g. the Lunar New Year holidays in Mainland China and Vietnam), which can often affect shipments and sales in the first quarter of each year, pandemics or natural disasters; surplus production capacity and availability of staff and labour;

(v) the seasonality of sales in quarterly revenue patterns and the length of the handset replacement cycle; the cyclical nature of customer demand; varying revenues and gross margins among geographies and programs for the products or services we provide;

(vi) product maturity and oversupply of certain products or models and poor consumer sentiment. Generally, the Group sees a lengthening of smartphone lifespan, both with existing phones and consumer expectations of future phones, that may be attributable to a slower pace of innovation and longer replacement cycle time. Increasing ESG

considerations mean that consumers may be more cautious with buying a new phone when their old phone remains usable and new models may not offer material advances that would justify upgrading;

(vii) customers' credit risks and assessment of adequacy of expected credit loss allowances. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional expected credit loss allowances and inventory provision may be required and restructuring charges may be incurred;

(viii) the timing of our expenditures in anticipation of future orders;

(ix) technology advancement; pace of overseas expansion;

(x) the COVID-19 pandemic and its evolution and factory shutdown as required by local government. The related lockdowns, restrictions and containment have had consequential impacts on the global economy generally. Further, the related changes in consumer demand, price wars, seasonality of sales, freight charges and stable supply of components (in terms of lead time, volume and price) have, to varying degrees, been relevant. As the COVID-19 pandemic has adversely impacted on every aspect of human society, businesses are experiencing even more challenging conditions, including those associated with a general economic slowdown. These conditions include, but are not limited to, financial market volatility, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of pandemic resurgences and production disruptions, decreased demand, layoffs and furloughs, and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn which could have prolonged negative impacts on the performance and financial results of a variety of businesses. Please also refer to the other paragraphs for more on the impacts of the COVID-19 pandemic on the Group and its performance;

(xi) possible gain when returning land to the government;

(xii) continuous rightsizing/restructuring of the underperforming parts of the Group's manufacturing operations to achieve its business strategy to become more asset-light and lean, which may lead to on-going rightsizing/restructuring activities and associated severance and other costs, expenses and/or losses as well as associated impairment, disposal and/or write-off of the Group's under-utilised/obsolete/depreciated assets;

(xiii) timing of receipts of agreed charges, fees, service income, claims or reimbursements from customers;

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

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

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

(xvii) changes in money markets (e.g. fluctuation of interest rates and foreign exchange rates as well as foreign currency exchange gains and losses) and capital markets; market volatility (e.g. RMB and INR and other currency volatility, stock market volatility); effectiveness of hedging activities; money market is volatile and the figures for second half of this year can differ significantly from historical figures;

(xviii) market/legal/regulatory/tax/fiscal and monetary/government policy/tariff changes (e.g. changes of custom duty rates, custom duty exemptions, tax audit, transfer pricing adjustment, India's PLI (Production Linked Incentives) scheme, government's blacklisting);

(xix) booking of income tax payments;

(xx) unprecedented and uncertain global environment resulting in a wide range of potentially long-term consequences which may give rise to discrete losses or expenses, such as those related to future impairment, disposal and/or write-off of property, plant and equipment, goodwill, intangible assets and equity investments;

(xxi) performance of the Group's associates and its share of those associates' profits/losses; and the associates have experienced losses is such turbulent marketplace and there maybe need to make impairment on such investments; timing of dispositions of equity investments and resulting profits/losses; timing of booking of revaluation gains/losses on equity investments;

(xxii) renewing or meeting the conditions of any tax incentives and credits; granting and timing of receipts of incentives, relief packages, compensations and other grants and assistance which may be subject to the applicant having met certain conditions and criteria (like export amount) and such applicant's eligibility and ability to meet all such conditions and criteria; and

(xxiii) upfront investments and challenges associated with the ramping of programs for new or existing customers.

Looking forward, it is foreseeable that in 2H 2022, the global economic recovery is still far away, and many companies (including the Group) still face difficulties and challenges, and the macro-environment will remain intricate, volatile and uncertain, hence the consumer demand will be likely to remain weak, thus continuously and adversely affecting the Group's performance.

Finally, new unpredictable risks, challenges and threats emerge from time to time, and it is not possible for the Company's management to predict all such factors or to assess their impacts on the Group's business. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Group's business, results of operations, financial condition and cash flows.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period and up to the date of this announcement, pursuant to the Buy-back Mandates (as defined in the Company's circulars dated 21 April 2021 and 14 April 2022 respectively) duly approved by the Company's shareholders at the Company's annual general meetings held on 28 May 2021 and 20 May 2022 respectively, the Company bought back in multiple batches a total of 55,000,000 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK$61,773,260.00 from 5 January 2022 to 8 July 2022 (both dates inclusive). Among these shares so bought back, 10,000,000 shares, 20,000,000 shares and 11,000,000 shares were cancelled on 14 January 2022, 29 April 2022 and 8 July 2022 respectively, and the remaining balance of 14,000,000 shares have not yet been cancelled, in all cases in accordance with the Articles. For more details, please refer to the next day disclosure returns and monthly returns as issued and published from 5 January 2022 to 1 August 2022 (both dates inclusive).

The above share buy-backs are summarised as follows:

Date of buy-back	No. of shares bought back	Price per share		Aggregate consideration paid (before expenses)
		Highest	Lowest	
		HK$	HK$	HK$
5 January 2022	4,034,000	1.39	1.38	5,591,920.00
6 January 2022	1,755,000	1.40	1.37	2,415,570.00
7 January 2022	4,211,000	1.41	1.39	5,892,750.00
23 March 2022	1,600,000	1.05	1.04	1,672,000.00
25 March 2022	375,000	1.06	1.06	397,500.00
28 March 2022	1,161,000	1.07	1.05	1,230,410.00
29 March 2022	1,013,000	1.08	1.07	1,088,170.00
30 March 2022	1,451,000	1.08	1.07	1,557,580.00
31 March 2022	1,500,000	1.08	1.06	1,613,420.00
1 April 2022	1,226,000	1.07	1.06	1,309,560.00
4 April 2022	2,000,000	1.09	1.08	2,165,000.00
6 April 2022	2,000,000	1.06	1.05	2,115,000.00
7 April 2022	2,974,000	1.05	1.03	3,082,700.00
8 April 2022	4,700,000	1.05	1.02	4,900,000.00
8 June 2022	163,000	1.03	1.03	167,890.00
9 June 2022	156,000	1.03	1.02	160,030.00

Date of buy-back	No. of shares bought back	Price per share Highest HK$	Lowest HK$	Aggregate consideration paid (before expenses) HK$
10 June 2022	503,000	1.05	1.01	528,030.00
13 June 2022	284,000	1.03	1.02	291,880.00
14 June 2022	1,062,000	1.05	1.01	1,084,650.00
16 June 2022	835,000	1.05	1.03	871,050.00
20 June 2022	497,000	1.05	1.04	521,350.00
21 June 2022	1,000,000	1.06	1.04	1,053,000.00
22 June 2022	500,000	1.05	1.05	525,000.00
23 June 2022	1,001,000	1.08	1.04	1,058,070.00
24 June 2022	1,400,000	1.11	1.09	1,534,000.00
28 June 2022	2,258,000	1.12	1.09	2,507,740.00
29 June 2022	707,000	1.13	1.13	798,910.00
30 June 2022	634,000	1.12	1.12	710,080.00
4 July 2022	1,300,000	1.12	1.11	1,451,000.00
5 July 2022	2,149,000	1.11	1.08	2,355,920.00
6 July 2022	1,451,000	1.08	1.07	1,557,080.00
7 July 2022	3,600,000	1.06	1.05	3,791,000.00
8 July 2022	5,500,000	1.06	1.04	5,775,000.00
	55,000,000			61,773,260.00

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

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, and has formulated and adopted the Authorisation Procedures of the Model Code and the Securities Dealing Policy since 2005 (each as amended and supplemented from time to time). Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code, and the requirements laid down by the aforesaid Authorisation Procedures and Securities Dealing Policy, in respect of the Company's securities throughout the current period.

CORPORATE GOVERNANCE

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

The code provision contained in Paragraph C.2.1 of Part 2 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

However, Mr. TONG Wen-hsin ("Mr. Tong"), the Company's former chairman and former executive director, had resigned from his positions within the Company with effect from 1 January 2017. Upon Mr. Tong's resignation, the Company has not been able to comply with the code provision contained in Paragraph C.2.1 of Part 2 of the CG Code. The reasons for such deviation are set out below.

Since the resignation of Mr. Tong as the chairman of the Company, the Company has been searching for the right candidate to fill the position of chairman of the Company. However, given the importance of the role, the Board expects that it may take some time before the Company is able to find a suitable candidate to fulfil the role of chairman. In light of the tremendous market challenges and the current uncertainties relating to the vacancy of the chairman role, the Board considered that experienced leadership was of utmost importance and has resolved to adopt an arrangement by appointing Mr. CHIH Yu Yang ("Mr. Chih"), the current chief executive officer, to act as the acting chairman with effect from 1 January 2017. Mr. Chih has been the Company's executive director and chief executive officer since 28 August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive and in-depth knowledge, experience and network in both the Company and the industry. The Board believes that this arrangement not only is crucial to the continuation in the Group's implementation of business plans and formulation of business strategies, but also serves to avoid unnecessary speculation, confusion and instability that may be caused to the Group's shareholders, investors, customers, suppliers and business partners worldwide, and that the status quo should be maintained when the Group has been facing challenging conditions like the COVID-19 pandemic and on-going developments as well as component supply instability, particularly when the Group had made consolidated net loss on an annual basis since 2017 until 2020 and recorded a consolidated net profit for 2021 but turned back to a consolidated net loss for the current period. Although the arrangement deviates from the relevant code provision, the Board considers that the arrangement will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board which comprises experienced

and high-caliber individuals of diversified perspectives, with whom three being independent non-executive directors (out of the six Board members). The Board meets regularly to consider major matters affecting the operations of the Group and all directors of the Company are properly and promptly briefed on such matters with adequate, complete and reliable information.

To address the potential corporate governance issues brought by the absence of separation of the roles and in particular to reduce the potential risk of concentration of power in one individual, the Company has implemented and maintained a number of internal control measures to highlight the roles of the executive directors (other than the acting chairman) and independent non-executive directors of the Company in scrutinising the decision-making processes applicable to certain material matters of the Group and also monitoring the exercise of power by the acting chairman cum chief executive officer, including without limitation the internal control measures as more particularly described in pages 173 and 174 of the Company's 2020 annual report as issued and published on 20 April 2021.

In light of the above, the Board believes that there have been adequate checks and balances at both the Board level and the Company's senior management level, and there has been sufficiently close supervision over the key operational matters of the Group, notwithstanding that the Company has not been able to comply with the code provision contained in Paragraph C.2.1 of Part 2 of the CG Code during the current period. The Board therefore considers that the circumstances justify the adoption of the arrangement for the chief executive officer to serve also as the acting chairman, and considers that this arrangement is currently in the best interests of the Company and its shareholders as a whole.

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

DISCLOSURE OF INFORMATION ON WEBSITES

The interim report 2022 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 second 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"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company", "we", "our" or "us"	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 2022
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"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 Technology 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 as amended from time to time
"Model Code"	the 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) as amended from time to time
"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.

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 9 August 2022

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