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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)**

# PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2022 together with comparative figures for the previous year as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2022*

| | *NOTES* | **2022** *US$'000* | 2021 *US$'000* |
|---|---|---|---|
| Revenue | *2* | **9,394,319** | 8,582,559 |
| Cost of sales | | **(9,202,363)** | (8,358,154) |
| Gross profit | | **191,956** | 224,405 |
| Other income, gains and losses | *3* | **132,630** | 166,447 |
| Impairment loss under expected credit loss model, net of reversal | | **(80,534)** | (4,679) |
| Impairment loss recognised for property, plant and equipment | | **(3,703)** | (12,171) |
| Selling expenses | | **(8,913)** | (13,564) |
| General and administrative expenses | | **(179,644)** | (173,924) |
| Research and development expenses | | **(74,452)** | (106,362) |
| Interest expenses | | **(29,578)** | (8,877) |
| Share of loss of associates | | **(3,085)** | (1,117) |
| Share of loss of a joint venture | | **(4,361)** | – |
| (Loss) profit before tax | *4* | **(59,684)** | 70,158 |
| Income tax expense | *5* | **(12,451)** | (13,735) |
| (Loss) profit for the year | | **(72,135)** | 56,423 |

| | NOTE | **2022** | 2021 |
|---|---|---|---|
| | | ***US$'000*** | *US$'000* |
| **Other comprehensive (expense) income:** | | | |
| *Items 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 | | **(79,405)** | 16,887 |
| Remeasurement of defined benefit pension plans | | **384** | 335 |
| | | **(79,021)** | 17,222 |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(221,898)** | 30,256 |
| Share of translation reserve of associates | | **(2,712)** | (1,379) |
| Share of translation reserve of a joint venture | | **(2,454)** | – |
| Reclassification of cumulative translation reserve upon deemed disposal of subsidiaries | | **–** | (173) |
| | | **(227,064)** | 28,704 |
| Other comprehensive (expense) income for the year, net of income tax | | **(306,085)** | 45,926 |
| Total comprehensive (expense) income for the year | | **(378,220)** | 102,349 |
| (Loss) profit for the year attributable to: | | | |
| Owners of the Company | | **(72,107)** | 56,328 |
| Non-controlling interests | | **(28)** | 95 |
| | | **(72,135)** | 56,423 |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | **(377,523)** | 102,165 |
| Non-controlling interests | | **(697)** | 184 |
| | | **(378,220)** | 102,349 |
| (Loss) earnings per share | *7* | | |
| Basic | | **(US0.91 cent)** | US0.70 cent |
| Diluted | | **(US0.91 cent)** | US0.70 cent |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 31 December 2022*

| | *NOTES* | **2022** **US$'000** | 2021 *US$'000* |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **728,302** | 813,658 |
| Right-of-use assets | | **40,198** | 60,210 |
| Investment properties | | **10,189** | 14,655 |
| Equity instruments at fair value through profit or loss | | **–** | 1,900 |
| Equity instruments at fair value through other comprehensive income | *8* | **143,610** | 225,339 |
| Interests in associates | | **25,951** | 20,891 |
| Interests in joint ventures | | **33,185** | 40,000 |
| Deferred tax assets | *9* | **14,557** | 22,132 |
| Deposit for acquisition of right-of-use assets | | **27,366** | 29,881 |
| | | **1,023,358** | 1,228,666 |
| Current assets | | | |
| Inventories | | **731,898** | 850,592 |
| Trade and other receivables | *10* | **1,905,645** | 2,001,387 |
| Bank deposits | | **24,280** | 14,327 |
| Cash and cash equivalents | | **1,825,109** | 1,884,719 |
| | | **4,486,932** | 4,751,025 |
| Current liabilities | | | |
| Trade and other payables | *11* | **2,704,356** | 2,732,383 |
| Contract liabilities | | **273,157** | 105,207 |
| Lease liabilities | | **1,498** | 5,033 |
| Bank borrowings | *12* | **676,054** | 857,490 |
| Provision | *13* | **2,779** | 6,323 |
| Tax payable | | **50,588** | 71,849 |
| | | **3,708,432** | 3,778,285 |
| Net current assets | | **778,500** | 972,740 |
| Total assets less current liabilities | | **1,801,858** | 2,201,406 |

| | NOTES | 2022 US$'000 | 2021 US$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | | **317,550** | 320,400 |
| Reserves | | **1,464,103** | 1,839,560 |
| Equity attributable to owners of the Company | | **1,781,653** | 2,159,960 |
| Non-controlling interests | | **6,123** | 7,309 |
| Total equity | | **1,787,776** | 2,167,269 |
| Non-current liabilities | | | |
| Deferred tax liabilities | *9* | **3,752** | 6,715 |
| Deferred income | *14* | **8,067** | 9,279 |
| Lease liabilities | | **2,263** | 18,143 |
| | | **14,082** | 34,137 |
| | | **1,801,858** | 2,201,406 |

*Notes:*

## 1. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

**Amendments to IFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the 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 year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has applied the amendments for the first time in the current year. The amendments specify that the costs of any item that were 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 relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with IAS 2 "Inventories" ("IAS 2").

In accordance with the transitional provisions, the Group has applied the new accounting policy retrospectively to property, plant and equipment made available for use on or after the beginning of 1 January 2021. The application of the amendments in the current year has had no impact on the Group's financial positions and performance.

## 2. REVENUE AND SEGMENT INFORMATION

The management 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.

**Segment revenue and results**

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$9,394,319,000 (2021: US$8,582,559,000) to its customers in connection with the production of handsets.

The Group applies the practical expedient that information regarding the transaction prices allocated to the remaining performance obligation for contracts with customer is not disclosed as the original expected duration of the contracts are less than one year.

As at 1 January 2021, contract liabilities amounted to US$115,668,000. All the contract liabilities at the beginning of the reporting period were included in the revenue recognised in the reporting period.

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

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Segment revenue (external sales) | | |
| Asia | **5,797,599** | 6,576,070 |
| Europe | **1,152,224** | 794,437 |
| America | **2,444,496** | 1,212,052 |
| Total | **9,394,319** | 8,582,559 |
| Segment profit (loss) | | |
| Asia | **108,217** | 126,312 |
| Europe | **(51,242)** | 39,545 |
| America | **70,817** | 50,720 |
| | **127,792** | 216,577 |
| Other income, gains and losses | **107,347** | 156,032 |
| Impairment loss recognised for property, plant and equipment | **(3,703)** | (12,171) |
| General and administrative expenses | **(179,644)** | (173,924) |
| Research and development expenses | **(74,452)** | (106,362) |
| Interest expenses | **(29,578)** | (8,877) |
| Share of loss of associates | **(3,085)** | (1,117) |
| Share of loss of a joint venture | **(4,361)** | – |
| (Loss) profit before tax | **(59,684)** | 70,158 |

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

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by operating segments:

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Segment assets | | |
| Allocated | | |
| Asia | **1,396,586** | 1,495,677 |
| Europe | **97,812** | 96,431 |
| America | **392,846** | 336,174 |
| Total | **1,887,244** | 1,928,282 |
| Unallocated | | |
| Property, plant and equipment | **710,449** | 800,907 |
| Inventories | **711,938** | 837,692 |
| Cash and bank deposits | **1,660,599** | 1,704,332 |
| Others | **315,357** | 391,949 |
| Corporate assets | **224,703** | 316,529 |
| Consolidated total assets | **5,510,290** | 5,979,691 |
| Segment liabilities | | |
| Allocated | | |
| Asia | **26,789** | 16,550 |
| Europe | **17,737** | 1,815 |
| America | **263,099** | 116,952 |
| Total | **307,625** | 135,317 |
| Unallocated | | |
| Trade and other payables | **2,670,446** | 2,707,817 |
| Others | **11,827** | 32,455 |
| Corporate liabilities | **732,616** | 936,833 |
| Consolidated total liabilities | **3,722,514** | 3,812,422 |

For the purposes of monitoring segment performances and allocating resources among segments, trade receivables from Asia operations are allocated to Asia, Europe and America segments based on customers' locations, while certain property, plant and equipment, inventories, trade and other receivables and cash and cash equivalents relating to Europe and America operations are allocated to Europe and America segments. Segment liabilities represent certain trade and other payables, contract liabilities and provision relating to Asia, Europe and America operations.

## 3. OTHER INCOME, GAINS AND LOSSES

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| An analysis of the Group's other income, gains and losses is as follows: | | |
| Interest income from bank deposits and bank balances | **44,111** | 35,552 |
| Service income | **25,283** | 10,432 |
| Sales of materials and scraps | **2,170** | 20,531 |
| Repairs and modifications of mouldings | **8,751** | 28,746 |
| Net foreign exchange gain | **13,205** | 2,393 |
| Government subsidies *(note)* | **28,362** | 28,237 |
| Rental income | **5,885** | 10,103 |
| Gain (loss) on disposal and write-off of property, plant and equipment | **1,422** | (7,268) |
| Gain on disposal of investment properties | **6,235** | – |
| Net fair value (loss) gain on financial assets at fair value through profit or loss ("FVTPL") | | |
| — equity instruments | **(1,900)** | 1,900 |
| — other financial assets | **–** | (496) |
| Dividend income from equity instruments at fair value through other comprehensive income ("FVTOCI") | **–** | 2,203 |
| Gain on deemed disposal of subsidiaries | **–** | 34,915 |
| Others | **(894)** | (801) |
| | **132,630** | 166,447 |

*Note:* This mainly represented subsidies granted for the Group's operations in the PRC. During the year, the Group recognised government grants of US$157,000 (2021: US$2,593,000) in respect of COVID-19-related subsidies, of which are mainly employment support scheme provided by local government.

## 4. (LOSS) PROFIT BEFORE TAX

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| (Loss) profit before tax for the year has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | **159,567** | 177,453 |
| Depreciation of right-of-use assets | **3,534** | 9,192 |
| Depreciation of investment properties | **2,330** | 2,715 |
| Total depreciation and amortisation | **165,431** | 189,360 |
| Less: Amount capitalised in inventories | **(135,046)** | (154,027) |
| Amount included in research and development expenses | **(5,474)** | (10,188) |
| | **24,911** | 25,145 |
| Interest on: | | |
| Bank borrowings | **28,611** | 7,754 |
| Lease liabilities | **967** | 1,123 |
| | **29,578** | 8,877 |
| Staff costs | | |
| Directors' emoluments | **2,406** | 2,338 |
| Retirement benefit scheme contributions (excluding directors) | **16,918** | 20,980 |
| Other staff costs | **351,932** | 420,616 |
| Total staff costs | **371,256** | 443,934 |
| Less: Amount capitalised in inventories | **(247,170)** | (305,896) |
| Amount included in research and development expenses | **(28,521)** | (48,159) |
| | **95,565** | 89,879 |
| Auditor's remuneration | **1,073** | 1,009 |
| Cost of inventories recognised as expense | **9,167,531** | 8,323,763 |
| Provision for warranty | **7,761** | 6,058 |
| Write-down of inventories to net realisable value | **27,071** | 28,333 |

## 5. INCOME TAX EXPENSE

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Current tax | | |
| — Hong Kong | **–** | – |
| — Other jurisdictions | **10,140** | 28,252 |
| | **10,140** | 28,252 |
| Overprovision in prior years | | |
| — Hong Kong | **–** | – |
| — Other jurisdictions | **(1,640)** | (7,565) |
| | **(1,640)** | (7,565) |
| | **8,500** | 20,687 |
| Deferred tax | | |
| — Current year | **3,951** | (6,952) |
| | **12,451** | 13,735 |

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 three years, i.e. effective from 2020 and 2022 respectively. Besides, another 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 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.

According to a joint circular of the Ministry of Finance and State Administration of Taxation in the PRC, Cai Shui 2010 No.1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter shall be subject to the Enterprise Income Tax at 5% or 10% and withheld by the PRC entities, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Rules.

## 6. DIVIDENDS

No dividend was paid, declared or proposed for the years ended 31 December 2022 and 31 December 2021, and a special cash dividend from the Company will be proposed upon completion of the Proposed Spin-off (as defined below) of Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited) ("BFIH").

## 7. (LOSS) EARNINGS PER SHARE

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

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| **(Loss) profit attributable to the owners of the Company** | | |
| (Loss) profit for the purposes of basic and diluted (loss) earnings per share | **(72,107)** | 56,328 |

| | **2022** | 2021 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss (2021: basic and diluted earnings) per share | **7,961,423,605** | 8,047,477,551 |

The calculation of diluted earnings per share for both current and prior years does not assume the anti-dilutive impact from the share options issued by its subsidiary and the potential ordinary shares.

## 8. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Equity securities listed in Taiwan | **–** | 7,149 |
| Equity securities listed in USA *(note a)* | **2,060** | 4,365 |
| Unlisted equity securities *(note b)* | **141,550** | 213,825 |
| | **143,610** | 225,339 |

*Notes:*

(a) The above listed equity investments represent ordinary shares of entities listed in USA. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

(b) The above unlisted equity investments represent the Group's equity interest in several private entities established in the PRC, India, USA and Taiwan. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they are held for long-term strategic purposes.

As at 31 December 2022 and 2021, included in unlisted equity securities above, there is the Group's investment in HMD Global Oy ("HMD"), a company incorporated in the Republic of Finland, which is engaged in the development, manufacture and sale of telecommunication devices, software and related services, of approximately US$103,900,000 (2021: US$184,600,000) and fair value loss of US$80,748,000 (2021: fair value gain of US$15,100,000) was recognised in other comprehensive income for the year ended 31 December 2022.

In determining the fair value of unlisted equity investment in relation to HMD, the Group engage independent professional valuers to perform a valuation. The amount is determined using option-pricing method with expected volatility, expected life and risk-free rate as the key inputs to allocate equity value of HMD derived from cash flow projection based on financial budgets and business plan approved by HMD's management for the estimated future cash flow discounted to its present value, which requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin taking into account relevant industry growth and market development forecasts.

## 9. DEFERRED TAXATION

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

| | Allowances for inventories and trade and other receivables *US$'000* | Warranty provision *US$'000* | Accelerated tax depreciation *US$'000* | Tax losses *US$'000* | Others *US$'000* *(note)* | Total *US$'000* |
|---|---|---|---|---|---|---|
| At 1 January 2021 | (2,309) | (418) | 7,319 | (6,959) | (6,512) | (8,879) |
| (Credit) charge to profit or loss for the year | (618) | (19) | (3,506) | 2,763 | (5,572) | (6,952) |
| Exchange adjustments | 5 | (6) | 88 | 210 | 117 | 414 |
| At 31 December 2021 | (2,922) | (443) | 3,901 | (3,986) | (11,967) | (15,417) |
| Charge (credit) to profit or loss for the year | 1,125 | 151 | (7,201) | 4,118 | 5,758 | 3,951 |
| Exchange adjustments | 162 | 27 | 38 | (132) | 566 | 661 |
| At 31 December 2022 | (1,635) | (265) | (3,262) | – | (5,643) | (10,805) |

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

For the purposes of presentation in the 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:

| | **2022** ***US$'000*** | 2021 *US$'000* |
|---|---|---|
| Deferred tax assets | **(14,557)** | (22,132) |
| Deferred tax liabilities | **3,752** | 6,715 |
| | **(10,805)** | (15,417) |

Deferred tax assets were recognised for other deductible temporary differences of approximately US$37,738,000 (2021: US$62,566,000) on allowances for inventories and trade and other receivables, warranty provision and other accrued expenses.

At 31 December 2022, the Group has not recognised deductible temporary differences on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$187,610,000 (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 the end of the reporting period, the Group has unused tax losses of approximately US$2,079,531,000 (2021: US$2,060,513,000) available for offset against future profits. No deferred tax asset (2021: US$13,286,000) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$2,079,531,000 (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 approximately US$384,433,000 (2021: US$356,292,000) which will expire by five consecutive years. Other losses may be carried forward indefinitely.

By reference to financial budgets, management believes that there will be sufficient future taxable profits or taxable temporary differences available in the future for the realisation of deferred tax assets which have been recognised in respect of tax losses and other temporary differences.

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$849,315,000 (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.

## 10. TRADE AND OTHER RECEIVABLES

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Trade receivables | **1,744,534** | 1,708,217 |
| Less: Allowance for credit losses | **(91,668)** | (12,642) |
| | **1,652,866** | 1,695,575 |
| Other taxes recoverable | **142,095** | 181,870 |
| Other receivables, deposits and prepayments | **110,684** | 123,942 |
| Total trade and other receivables | **1,905,645** | 2,001,387 |

As at 1 January 2021, trade receivables from contracts with customers amounted to US$2,041,275,000.

The Group generally issues 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 ranged from 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:

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 0–90 days | **1,476,163** | 1,574,028 |
| 91–180 days | **83,477** | 95,205 |
| 181–360 days | **89,506** | 26,158 |
| Over 360 days | **3,720** | 184 |
| | **1,652,866** | 1,695,575 |

Due to the COVID-19 pandemic and lockdowns in various countries, the payments from certain customers have been deferred. As at 31 December 2022, included in the Group's trade receivables balances are debtors with aggregate carrying amount of US$228,567,000 (2021: US$139,934,000) which are past due as at the reporting date. Out of the past due balances, US$93,226,000 (2021: US$26,342,000) has been past due over 90 days or more and is not considered as in default based on the credit quality of the debtors. The Group does not hold any collateral over these balances.

## 11. TRADE AND OTHER PAYABLES

| | 2022 | 2021 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Trade payables | **1,981,288** | 2,038,092 |
| Other tax payables | **65,327** | 118,587 |
| Accrued staff costs and employee benefits | **137,637** | 136,285 |
| Others | **520,104** | 439,419 |
| | **2,704,356** | 2,732,383 |

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

| | 2022 | 2021 |
|---|---|---|
| | *US$'000* | *US$'000* |
| 0–90 days | **1,790,822** | 1,950,662 |
| 91–180 days | **167,299** | 57,682 |
| 181–360 days | **5,087** | 18,334 |
| Over 360 days | **18,080** | 11,414 |
| | **1,981,288** | 2,038,092 |

## 12. BANK BORROWINGS

| | 2022 | 2021 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Bank loans — due within one year | **676,054** | 857,490 |

Analysis of bank borrowings by currency:

| | 2022 | 2021 |
|---|---|---|
| US$ | **563,800** | 816,280 |
| RMB | **112,254** | 39,200 |
| Indian Rupee ("INR") | **–** | 2,010 |

The bank borrowings as at 31 December 2022 are unsecured, obtained with original maturity of one to seven months (2021: one to six months) and carry interest at fixed interest rate ranging from 2.20% to 5.41% (2021: 0.61% to 5.90%) per annum. Out of total bank borrowings, bank borrowings of US$195,000,000 (2021: US$97,010,000) contain a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 4.65% per annum (2021: 0.80% per annum).

## 13. PROVISION

| | 2022 | 2021 |
|---|---|---|
| | *US$'000* | *US$'000* |
| At 1 January | **6,323** | 9,499 |
| Exchange adjustments | **(404)** | 135 |
| Provision for the year | **7,761** | 6,058 |
| Utilisation of provision/upon expiry of the warranty period | **(10,901)** | (9,369) |
| At 31 December | **2,779** | 6,323 |

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

## 14. DEFERRED INCOME

| | 2022 | 2021 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Government subsidies | **8,067** | 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.

## 15. 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 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 bank that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

| | **As at 31 December 2022** | | |
|---|---|---|---|
| **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 | **220,026** | **(220,026)** | **–** |
| Bank borrowings | **(220,026)** | **220,026** | **–** |
| Interest receivables | **3,102** | **(2,977)** | **125** |
| Interest payables | **(2,977)** | **2,977** | **–** |

| | As at 31 December 2021 | | |
|---|---|---|---|
| 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 year, interest income of US$2,567,000 (2021: US$1,853,000) relating to the above arrangement was included in interest income.

**IMPORTANT**

**The consolidated final results of the Group for the current period as set out in this announcement have been reviewed and audited 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 Vietnam and Taiwan) in the first quarter of each year which is generally a low season post-Chinese New Year for the industry in which the Group operates, the Group's performance in the first quarter is usually worse and not comprehensive and representative, compared with that in the other quarters.**

**The Company refers to its announcements of 2 November 2022 and 24 February 2023, which in turn referred to (among other things) the novel coronavirus (COVID-19) pandemic and other challenging conditions that the Group has been facing, together with their adverse impacts on the Group and its operations, as well as the various factors attributable to the Group's consolidated net loss for the current period. In this respect, please also refer to "Outlook" below.**

**This announcement contains forward-looking statements regarding the Company's expectations and outlook on the Group's order book, business operations, performance, opportunities, threats and prospects. Such forward-looking statements are subject to risks and uncertainties and do not constitute guarantees of the future performance and order book of the Group and are subject to factors that could cause the Group's actual results and order book to differ (possibly materially) from those expressed in the forward-looking statements. These factors may include, but may not be limited to, changes in general industry and macro-economic environment (such as intensifying tensions and political conditions and deglobalisation), changes in money markets (such as interest rate hikes and inflationary rate and volatility in foreign exchange rates), changes in capital markets, market saturation and vigorous competition and commoditisation, shifts in customers' demand and preferences and prolonged replacement cycle and shortened demand visibility and managing fluctuations in customer demand and other related customer challenges that may occur, "China Plus One" strategy, customer outsourcing strategy and customer concentration risk, growing margin erosion pressure, competitive challenges affecting our customers, the risk of customer delays and changes and cancellations or forecast inaccuracies in both ongoing and new programs, seasonality of sales, and higher revenue volatility, changes in sales and product mix 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 open purchase order 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, 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 and the Securities and Futures Ordinance (Charter 571 of the Laws of Hong Kong).**

**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. 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. Technology innovation is at the center of our ability to deliver these end-to-end capabilities. Despite the regional shift in the manufacturing sites; the greater China region remains as the center of Research and Development (R&D) to continue providing innovative product solutions to our clients.

The handset manufacturing industry is highly dynamic and competitive and growingly saturated. Since late 2017, the Group has faced challenging market conditions and high margin erosion pressure and contraction of demand, and those conditions have continued into 2022 and will continue into 2023. Component prices are on average and key focus lies on labour costs and utilisation and overhead costs. The Group was not insulated from the economic swings of recent years because of its global nature of operations. Aggressive pricing is a common business dynamic as entry barrier is low, and peers in China are very cost competitive and margin erosion pressure on both the Group's casing and system assembly business is extremely high and continues to increase, especially when market demand is weak and there is surplus capacity in the market. Idle cost of the Group has been increasing as capacity utilisation (including factory buildings) is deteriorating despite the Group has been aggressively disposing of idle assets. As the market is bad, it is difficult to sell idle land and factory premises. High inflation also increased labour and overhead costs. Vietnam 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. But high inflation has been a big headache. On the other hand, the mix of products ordered by and shipped to major customers will affect the Group's gross margins as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services. Cost reductions without compromising on quality, especially cost containment in parts of our supply chains, is tough work. During the downturn, delivering top-notch customer service is of paramount importance as this will enable us to stand tall in the future, even when service and cost are competing priorities. Every player in the industry is striving to gain and maintain competitive differentiation by adopting new approaches or by realising latent sources of success in existing operations. In the quest for recovery, companies in the handset industry are competing against each other to increase their market presence and share while continuing to face challenges like slim operating margins, low visibility, high inflation, shortening replacement lifecycle and managing a global supply chain. Our customers are trying to overcome these challenges through innovations and launching new products and services. Lacking short-term ways to stimulate demand and sales growth, many companies remain focused on preserving their bottom lines by holding down costs. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans and currently this is viewed as a significant restraining factor for the market.

The year 2022 had been a challenging year. The continuous impacts from COVID-19 variants and the rise in inflation caused the global economy to enter into a pronounced slowdown. Throughout 2022, the mobile phone market faced weakening demand, inflation, continued geo-political tensions, ongoing supply chain constraints, and China lockdowns. The impacts resulted in cut back orders for both feature phones and smartphones. Considering the geo-political tension, the overall mobile phone market trend, and the Group's strategy to diversify business risks by expanding into other product categories other than mobile phone; the Group had continued the organisational adjustments to enhance business development functions gearing toward the global market with emphasis on India and China. The global smartphone market suffered the lowest annual shipment total since 2013 and the worst holiday quarter performance ever in history. For 2022 smartphone shipment performance, the largest market — China, faced a decade low and India market witnessed a 10% decline, the lowest since 2019, according to recent International Data Corporation (IDC) news. Those 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 for the downturn. In regards to the global consumer electronics industry, the COVID-19 outbreak 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, demand has eased in 2022. As pandemic situations had stabilised across countries and people had gradually gotten back to normal life and worked at physical offices, consumer electronics demand had shown signs of slowing down. Economic headwinds had pushed consumers to curb/postpone discretionary spending like mobile phones due to decades-high inflation, rising interest rates and fears of an economic slowdown. High inventory in channels and low demand with no signs of immediate recovery had made OEMs panicking and cutting their orders dramatically for 2022. The conflict between Russia and Ukraine, which had sparked an energy crisis that had spurred inflation, was the primary driver behind the cost-of-living crisis. A "cost-of-living crisis" simply referred to a scenario in which the cost of everyday essentials like energy and food had been rising much faster than average incomes. The slump in demand plagued the wider industry. Consumers in emerging economies, such as Southeast Asian and African countries, were reluctant to buy phones, which had become more expensive due to the strong U.S. dollar against local currencies. In the first half of 2022, there were lots of supply issues including component supply instability, logistical challenges and transportation; in order to have a better understanding of the challenges faced by the Group, we had to look at the demand and supply side and the mismatch and imbalance between demand and supply which directly affected sales and costs and margin performance. Demand in China, the largest handset market and the Group's major market, had been sluggish. That softer demand had been reflected in reduced end-consumer appetite and reassessments of Chinese brands. The lockdowns in several major China cities in the first half of 2022 and poor sentiment caused by the COVID-19 outbreak and shutdowns and slower economic momentum and the lack of product upgrades exacerbated an already difficult situation. In the second half of 2022, as capacity and production was ramped up, situation had changed and supply chain constraints pulling down on the market since last year had eased and were no longer the most pressing issue as component orders were cut quickly and suppliers started to be concerned about oversupply and inventory accumulation and the industry shifted to a demand-constrained market and end customers became even more price sensitive. The economic downturn and inventory adjustments had spurred rapid freeze and urgent order halts. Semiconductor manufacturers were grappled with rapidly crumbling global electronics demand, as consumers

left a pandemic-era boom behind. Mounting geopolitical tensions, interest rate hikes, rising energy prices, slowdown of global economy, current macroeconomic uncertainties, a dip in consumer confidence and roaring inflation affecting disposal income had dampened consumer appetites in 2022. Increased inventory across all regions and, with China's economic slowdown and dynamic zero-COVID policy and COVID-19 lockdowns and travel restrictions and increasing unemployment rate, had played a pivotal role in sapping momentum for smartphone sales and will continue to damage 2023 and future market performance and affected the revival of the Group. Originally, the Group kept some sites and assets and people to prepare for the recovery of business. But domestic demand in China continued to be very weak and waned as a flare-up in coronavirus cases led to lockdowns, while export growth slowed and the key property sector further cooled, pointing to a fraught recovery and the low recovery had affected asset utilisation and the revival of the Group and dramatically increased the idle costs burden of the Group and the Group had to continue downsizing activities to further cut its fixed overheads. Aside from the domestic risks, China's economy had been pressured externally by the Ukraine crisis and a global slowdown due to interest rate hikes to curb red-hot inflation. COVID-19 measures in China had become more flexible as it depended on the number of COVID-19 cases. But lockdowns were still a big uncertainty to the economy with the background of the real estate crisis. As the customers become more cautious to place orders, it makes it difficult for the Group to predict order book and arrange material sourcing and people planning and production scheduling in an efficient manner.

On the supply side, China, in the first half of 2022, global manufacturing center for most of these devices and components, and world's largest smartphone consumer market, still abided by a dynamic zero-COVID policy and COVID-19 pandemic severely disrupted supply and demand in this market. With a nationwide lockdown in place, the smartphone manufacturing sector has been adversely hit by late development and shipment of next-generation products. Also, the country had witnessed being choked off from suppliers, workers, and logistics networks. Not only had this policy exacerbated labour and material shortages in the intricate smartphone supply chain, pandemic prevention regulations also devastated market demand. In the second half, supply of materials and components began to stabilize. More explanation will be provided in below section of "Impacts of COVID-19 and Supply Chain Instability".

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 continued to adopt strict dynamic zero-COVID policy, the rest of the world had learned to co-exist with the virus and was basically going for some sort of half combination of herd immunity and high-quality vaccination and re-open the countries again. 2022 was originally a year of post-COVID-19 normalisation, labour market healing, and a growth revival. Instead, COVID-19 flare-up and stringent anti-COVID-19 measures in China and the domino effect to supply chain and risk of further U.S.-China tensions and the spike in geo-political tensions triggered by the war in Ukraine and the sanctions to Russia exacerbated global supply chain disruptions and kept weighing on market sentiment and the limited macroeconomic policy space that confronted most governments had made 2022 a tough year for global growth. 2022 turned into a fraught period of geo-political realignments, crashing stock market and financial market volatility, aggressive interest rate hikes, skyrocketing gasoline and food prices, and an energy crisis in Europe, and all against the background of surging and record-high inflationary pressures which had rapidly spread from Europe to the world and there was limited room for policy maneuver. Weakened Chinese production in the first half of 2022 posed a major setback for businesses hoping to unclog

supply chain bottlenecks that have plagued the global economic recovery. Clogged supply chains and trillions of dollars in pandemic-related fiscal and monetary stimulus have combined to create an environment of high prices and slow economic growth that has bedeviled policymakers. The global economy had lost momentum in the wake of Russia's war of aggression against Ukraine. Gross domestic product (GDP) growth had stalled in many economies and economic indicators pointed to an extended slowdown and the ongoing war in Ukraine had dimmed prospects of a post-pandemic economic recovery for emerging and developing economies in the Europe and Central Asia region and drastically increased uncertainty about the recovery of the global economy. In the first half of 2022, due to the high transmissibility of Omicron, the Group's operation was affected by city lockdowns and factory shutdowns. Through the effort of the team and the support of local government, customers, suppliers and logistics providers, the Group succeeded to minimise the impact on the first half of operations. The lockdowns, testing and quarantine rules that were key to the zero-COVID policy put a strain on consumer and business spending, pushing the economy close to contraction. The zero-COVID policy was also increasingly expensive to maintain. Local governments had to bear huge costs to test and quarantine residents, while their income from land sales and taxes plummeted amid a slump in the housing market. Officials had begun downplaying that goal in recent months as it slipped out of reach, instead focusing on job stability and other metrics. In November 2022, the International Monetary Fund (IMF) had called on China to recalibrate its zero-COVID strategy as its economic growth shrank. "Although the zero-COVID strategy has become nimbler over time, the combination of more contagious COVID-19 variants and persistent gaps in vaccinations have led to the need for more frequent lockdowns, weighing on consumption and private investment, including in housing," the IMF said.

China's economy in the third and fourth quarters was threatened by a smattering of COVID-19 outbreaks across the country that resulted in mobility curbs and which dampened consumer and business confidence. Recurring virus disruptions in China had weighed on economic activities, and further large-scale lockdowns could not be ruled out. In November 2022, there was COVID-19 outbreak in the Group's China manufacturing site in Northern China and this site faced severe situation due to stringent lockdown imposed by the local government. COVID-19 curbs greatly affected consumption and investment in China, as the result of the zero-COVID policy, China's exports fell unexpectedly in October for the first time since May 2020. This is a flagging concern about the impact of the policy. On December 7th 2022, Chinese government decided to relax many of its stringent zero-COVID controls to boost up the economy; however, it was far from a quick return to a pre-pandemic situation as COVID-19 infections swept across the country and healthcare system was under huge pressure. The sudden reopen policy affected manufacturing operation tremendously in the short run as infections spread, a lot of people were infected and this lead to labour shortages and supply chain chaos and factory production disruptions. Supplier's factories were closed due to COVID-19 outbreaks. Very high COVID-19 positive rate limited available capacity. It is acknowledged that Omicron is far less likely to cause serious health issues but say its high transmissibility means large outbreaks would lead to a run on medical resources and expose vulnerable groups, including hundreds of millions of elderly people.

Months of the Russia-Ukraine war caused extensive damage to Ukraine and had a transformative impact on the World's economic and GDP, financial, and geopolitical status quo. The effects had been wide-ranging and unequal among countries, contributing to global food shortages, a European energy crisis, mounting geopolitical tensions, and rising inflation. While global prices for oil, gas and coal had risen since early 2021, they skyrocketed after Russia's invasion

of Ukraine, sending inflation to levels not seen for decades in the region. This unprecedented crisis had implications for consumers and governments alike — constraining fiscal affordability; firm productivity; and household welfare. The war had an outsized impact on virtually all global value and supply chains impeding the flow of goods, fueling dramatic cost increases and global food supply and security and affordability (particularly acute in low-income countries in Africa) and caused a negative ripple effect on global economy. Russia is a major supplier of oil, gas, and metals, and, together with Ukraine, of wheat and corn and reduced supplies of these commodities had driven their prices up sharply. Ukraine and Russia accounted for about a third of the world's wheat and a quarter of barley production, not to mention some 75% of the sunflower oil supply — all critical commodities for keeping humans fed. In particular, there was high concern about the food situation in low-income countries and the war really sent 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 cause social unrest and political turmoil. The surge in energy and food and common commodity prices, in combination with post-pandemic distressed supply chain strains resulted in a rise in the cost of transportation and logistics, as well as operational costs, for companies across the board and hurt consumer and business confidence and have driven inflation rates around the world to levels last seen in the 1970s. This has had widespread ramifications for bond markets especially where borrowing costs have ballooned and default worries have deepened. Looking ahead, there is an elevated risk that supply chains are likely to remain permanently altered by the conflict, away from Ukraine and Russia. The broad picture was that the euro-area economy had slowed pretty rapidly because much higher inflation had weighed on incomes and on consumption, and energy prices had weighed on producers. Activity in the euro area, the largest economic partner for emerging and developing economies of Europe and Central Asia, has deteriorated markedly in the second half of 2022, Europe was one of the region most at risk should the war in Ukraine drag on or escalate, as its economies struggled to wean themselves off Russian fuel. In Europe, analysts warned that any increased unity would be put under pressure by the costs of a prolonged war, winter energy insecurity, spiraling energy prices, and inflation and EU countries are closely coordinating actions to tackle rising prices and the scarcity of supplies. Central banks had introduced more aggressive interest rate hikes in order to control price rises. Consumer and business confidence had taken a hit, which boded ill for consumer demand and especially for business investment. While high commodity prices were one of the risks already identified as potentially disruptive to the recovery, the escalation of the conflict increased the likelihood that commodity prices would remain higher for much longer. In turn, it intensified the threat of long-lasting high inflation, thereby increasing the risks of stagflation & social unrest in both advanced & emerging countries. As explained, the uncertainty and geopolitical risks rose sharply following Russia's invasion of Ukraine and the subsequent disruption of energy and food supplies to Europe owing to the retaliatory sanctions imposed on Russia. Consequently, the heightened demand for U.S. securities around the world will increase the demand for the U.S. dollar, further fueling the currency's strength. 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 and the long-run impact on multilateralism and the global order. As some of the Group's customers sell/distribute phones to Europe/Africa and it is expected that Ukraine war may last for quite 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 operations of the Group.

The U.S. dollar had steadily gained against many global currencies, with the strengthening particularly acute in the second half of 2022. The tighter monetary stance adopted by the U.S. Federal Reserve to aggressively curb inflation led to steady hikes in the benchmark interest rate. Beginning 2022 with a target interest rate of between 0% and 0.25%, the U.S. Federal Reserve has raised rates seven times thus far to a range of 4.25% to 4.50%. As price indices continued to climb, people expected future rate increases. Global interest rates were low across many developed nations. The U.S. Federal Reserve's decision to hike interest rates increased the attractiveness to hold U.S. interest-bearing assets globally with higher interest rate environment. The preference for U.S. assets also stemmed from the perceived security and better economic growth prospects when compared to other developed countries. Consumers in emerging economies, such as Southeast Asian and African countries, were reluctant to buy phones, which had become more expensive due to the strong U.S. dollar against local currencies. It is very clear markets stimulated through loose monetary policy in the past years have created a monster, inflation. Rising inflation would have an adverse effect on people's disposable income and people hold onto their phones longer and the life cycle of smartphones has become longer and longer 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 the global economy can resume to normal and geo-political tensions can relax. It is a long journey to return to pre-pandemic levels. The urgent need for a sustaining economy in a global pandemic could very well justify extended quantitative easing (QE) in most economies over the last three years. Yet the negative side effects went out of control. U.S. Customer Price Index (CPI) in June 2022 rose to the highest level in four decades and this was a clear signal on inflation level and on spending and demand for 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 threats to the 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 hikes and fast-paced tapering are medicines being put in place in extra heavy dosage aiming to make up the lost time from 2021. In the last month of 2022, U.S. CPI dropped to 6.5%, the sixth straight month of yearly decline. Despite the decline, it still three times as the U.S. Federal Reserve's target rate of 2%. Major central banks aim for inflation near 2%, and have been hiking interest rates in a bid to limit price rises. But the campaign is also boosting risks to the economy by increasing debt-servicing costs for households, businesses and governments. "Higher interest rates, while necessary to moderate inflation, will increase financial challenges for both households and corporate borrowers," the OECD said. "Low-income countries will remain particularly vulnerable to high food and energy prices, while tighter global financial conditions may raise the risk of further debt distress," it added. World Bank President David Malpass told CNN recently that the organisation is "worrying about a world recession in 2023," but that the United States is "a little stronger than other economies." World Bank officials have called on central banks to refrain from competitive rate hikes that will push the global economy into recession and harm the economies of developing countries the most. According to the World Bank's latest Global Economic Prospects report, it mentioned that given fragile economic conditions, any new adverse development could trigger the second global recession within the same decade. World Bank has forecasted that the global economy is projected to only grow by 1.7% in 2023 and 2.7% in 2024. Nevertheless, the OECD said further rate hikes were needed to fight inflation, forecasting that most major central banks' policy rates would reach at least 4% next year. Despite ongoing shocks to the global economy, the U.S. Federal Reserve did not deviate from

its plans of monetary tightening and market thus expects a series of rate hikes in 2023. With inflation at a 40-year high and the labour market still tight, the U.S. Federal Reserve has pulled another instrument from its monetary policy toolbox. In addition to raising its key interest rate target, the U.S. Federal Reserve has said it will start to shrink its balance sheet, another step in post-pandemic policy normalisation. In this context, the USD appreciated and the cost of credit and borrowing in USD became more expensive in 2022.

In view of the slowdown in growth rate and decline in global smartphones shipment, the Group is committed to diversifying the revenue contribution from mobile phones and mitigating the concentration risk of dependence on a single customer and product and region and devote additional resources on business development function and capabilities. But there are inherent difficulties to penetrate existing customers and develop new customers. Facing the strong headwinds, customers have to minimise risks and optimise cost and may shift production between EMS (Electronic Manufacturing Services) and ODM (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, deglobalisation, demand for their products, global economy, regional geo-political tensions, reshoring plans of suppliers/customers, labour cost, pricing concessions, more favourable payment terms and conditions, tax efficiency, diversification of risks, enterprise risk management, environmental, social and governance (ESG) compliance, optimisation of logistics costs and value chain, quality of engineering and product development services, on-time delivery and tax benefits. Customers may also change their outsourcing strategies and the amount of business they outsource in order to integrate vertically or consolidate through their supply chain capacity or rotating their supply chain partners or increase specialisation through further contracting or the concentration of location of their EMS suppliers. Actually, the Group has been facing such a risk as some of our customers are carrying out insourcing works.

As a whole, the market for OEM and ODM services is characterised by rapidly changing technology and continuing process development, and the Group devoted resources to these two areas to enhance our capabilities and long term sustainability. Our continued effort on business diversification and development and transformation and downsizing and remaining lean and expanding overseas operations and making continuous improvements are critical to the long term sustainability of the Group and strategically positioning the Group to take advantage of the future growth prospects of OEM/ODM industry and makes us a stronger and trusted long term partner to our customers.

The Group will continue to monitor the dynamics and impacts of the global economic and financial environment and geo-political tensions and Russia warfare 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 used, obsolete, redundant, surplus and loss-making/under-performing assets to become an asset-light corporate group and a lean organisation and optimised headcounts and cut costs and expenses with the intention of improving utilisation and preserving cash and such downsizing and trimming activities have continued into 2023. With the R&D capabilities and competencies and know-how in working with a wide range of materials and craftsmanship and the provision of a wide spectrum of

value-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.

**Key Relationships with Customers, Suppliers and Employees**

***Key Relationships with Customers***

Apart from offering production sites in different countries, the Group's strategy and business model are to work with the customers to provide holistic services from the initial concept design stage up until the end of the production process managing all aspects of sourcing, development and production start-ups and mechanical design and assembly and 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 rapidly changing customer demands. 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 material costs, minimise lead times and improve efficiency of our planning cycle to better meet volatility in customer demand and improve asset utilisation and control inventory levels. In the past, rapid changes in technology and craftsmanship, evolving industry standards and requirements, handset market landscape, consumer behaviour, and requirements for continuous improvement in products and services resulted in shorter product life cycles. The Group secures front-end trends by working closely with supply chain and suppliers (including Hon Hai Technology Group via vertical integration), managing both procurement and inventory and quick response manufacturing services and creating win-win for both the Group and customers by developing practical and total solutions which can enhance competitiveness of customers via continuous and close interaction with the materials/ component marketplace. We operate flexible manufacturing facilities and design our processes to accommodate customers with multiple product lines and configurations. All these help to foster and maintain the Group's long term relationship with customers and expand these relationships to include additional product categories and services. Such repeatable execution driven by a collaborative and customer-centric culture that continuously evaluates and optimises our business processes and adapts to ever-changing macro- economic conditions and provides clear value to customers. The building up of such competencies is also critical to the development of new customers.

As mentioned above, because of China's zero-COVID policy and in particular the deterioration of global and China economy and increase in unemployment, market saturation, Ukraine war and the escalating inflation, prolonged handset replacement time, commoditisation of smartphones, end market demand becomes sluggish and 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 predict order book and schedule production and shipment and resources planning and maximise utilisation of our manufacturing assets and capacity and to estimate order book with reasonable certainty and yields and efficiencies are greatly affected and idle costs increase dramatically and margin erosion pressure continues to be extremely high. The Singles' Day online shopping festival of China, which is the world's biggest shopping festival. Against the backdrop of sluggish demand amid macroeconomic headwinds, China e-commerce platforms declined to reveal their 2022 Singles' Day sales performance in detail but it was expected that Singles' Day smartphone sales dropped YoY in 2022 as the market stayed weak due to the sustained strict COVID-19 policy in China and slowdown of economy. In light of sharp decline of handset demand, customers which own manufacturing facilities and capabilities may reduce outsourcing so as to optimise its own capacity utilisation. One of the Group's customers had been keen to reduce percentage of outsourcing and this has been affecting sales to this customer. On the other hand, customers may fail to successfully market their products, and customers' products may not be price competitive and 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 downside/exit businesses. As market volatility increased a lot and end customers become more price sensitive and cost-conscious in anticipation of an economic downturn, and reduce discretionary/non-essential spending, demand dropped significantly and all these unfavorable factors have intensified the competition of the global handset market and our customers are more cautious in their demand planning, expense and cost control, cash flow management and demand visibility is greatly shortened. As the margins of the customers are reduced, they are prone to cut the prices of the handsets we sell to them and margin erosion pressure on us is extremely high. At the same time, the Group has been aggressive in getting more orders in order to optimise utilisation. If production volume is low, we will have huge unabsorbed manufacturing overhead costs and idle costs which will affect the already low gross profit margin. This explains why the Group has been putting effort into cutting costs and terminating loss-making/under-performing operations. For details, please refer to the section of "Impacts of COVID-19 and Supply Chain Instability" for information related to the impact to 2022 performance. Another adverse factor is the saturation of Chinese smartphone market. According to research firm IDC, Chinese smartphone market is severely saturated, which could mean the end of China's more than 10-year smartphone boom. As of the end of 2021, there were more than 1.6 billion active mobile phone accounts in China, surpassing the population of 1.4 billion. The penetration rate is much higher than the global average, resulting in intense brand competition. Leading brands in China suffered more as China's domestic market contracted more than the rest of the world amidst rapid deterioration of China's economy and price-conscious consumers backed off from spending more in product segments that were dominated by them. The recovery will depend on how quickly and to what extent normal economic and operating conditions can resume. It is a long journey to return to pre-pandemic levels. 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 various countries. Until now, this customer's smartphone business still struggles to survive through selling 4G smartphones in the domestic market. According to

IDC data, the smartphone shipments of this customer faced a 18.7% decline in 2022, with a drastic volume drop to 30.5 million units. Even worse, the customer has run out of in-house-designed chips for its smartphones piled up a few years ago before the effect of the sanction, according to a report by Counterpoint Research. Due to the size of the business of this customer, it is no longer the Group's top 5 customer.

Furthermore, the replacement/upgrade cycle of smartphone has further prolonged in mature market such as America and Western Europe which is due to limited product and 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. No phone is exponentially better than last year's version, and it is obvious that the lesser the percentage difference in utility an upgrade can make. In order to induce replacement demand from consumers, global handset makers believe that it is essential to ramp up their launch of smartphones of new form factors (e.g., foldable handsets, self-developed IC chips with high efficiency and under-display cameras) or diversify into products boasting new hardware (e.g. extended reality (XR) functionality). Rising inflation triggered by U.S. previous Quantitative Easing (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. Due to inflation's broad and profound and far-reaching influence, it is not yet possible to determine the extent of its effect on the global smartphone market, but there is indeed a high risk of continuous downward revisions.

The short-term nature of the Group's customers' commitments and demand visibility and the rapid changes in demand for their products reduced our ability to accurately estimate future demand and requirements and the timing and order book of our customers. This made 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 had to control overheads and inventory level and open purchase order exposure and liabilities and get rid of idle assets to reduce idle costs and remain lean but agile and streamline production processes and monitor closely market and competition landscape and labour availability and review business model and contribution margin performance of the orders and credit position of customers and communicate well with customers and determine the levels and volume of business that the Group can take. The pandemic and geo-political tensions and roaring inflation had stalled the global economy and the repercussions had affected all of our customers. As the Group's customers in different segments faced different kinds of headwinds, the Group's segment performance in different countries was affected by different degrees and in different areas. As the current economic crisis unfolded against the backdrop of a public health emergency of COVID-19, the unprecedented rise in unemployment and disruption in economic activity put a strain on the solvency of customers and companies, and the Group had kept monitoring the collection and default risks. In particular, the Group has been controlling business amounts and capping trade account receivables with HMD to control credit exposure and made adequate expected credit loss allowances in the book to reflect the collection and default risks.

As long-term partnerships and relationships have been established with customers, the Group is able to communicate effectively with the customers and accelerate manufacturing while meeting delivery, specifications and quality requirements from customers. At the same time, the Group has been consistently putting effort on improving operation management, cost effectiveness, process and efficiency optimisation, quick response manufacturing, lean manufacturing, quality management, 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 and professional manner. The Group is dedicated to continue to build good corporate government structure and competitive advantages and core competencies that are core to our success and competitiveness and long term sustainability and this includes focuses on global deployment in India and Vietnam, as mentioned above, competitive costs, superior quality and customer service, continuous dedication of resources to R&D competence building, and enhancement of end-to-end service offerings, talent development especially in R&D and industrial design and engineering capabilities, rapid and shorter product development cycles, use of new material and technologies and solutions that are environmentally friendly, ability to design for large-volume and low-cost production, and control of multiple production inputs through our vertically integrated operations. Given that the industry is dominated by consolidated significant players and in cases where the Group is going to develop new smaller customers, it would be difficult for the Group to develop new customers that have similar business scale as the Group's existing major customers and would to a certain extent affect the Group's bargaining power. Further, it takes time to develop new customers and for the Group to gear up its production facilities to produce products and provide services that are customised for new customers. In cases where the Group switches to or adds new customers, it typically takes the Group 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 and business/credit risks.

In light of the handset market saturation, the Group has to be technologically innovative and intensifies its focus on manufacturing efficiency and productivity and devotes resources to keep pace with technological changes in the industry and adapt our services so that our customers can use better and cost competitive solutions in their products. Regardless of the size and scale of the customer, we establish the long term business relationships with our customers by providing high quality products and services of global standards at competitive prices in an efficient manner, manufacturing industry-leading and state-of-the-art products for its customers in different countries, offering customised services and solutions and flexibility to customers, and creating customer delight and satisfaction among passionate people engaged in a world-class manufacturing environment, and continues to prolong, develop, penetrate and foster closer relationships and partnerships with them for mutual benefit of the Group and such customers in the long run and leverage talents of the Group. The Group believes its long term business relationship with major customers are the result of the Group's track record of meeting commitments in quality and delivery and delivering the core value and services which are crucial to the increase of customers' competitiveness in the growingly difficult and competitive and saturated market. We are a high performance, accountable organisation with a talented and engaged workforce that is deeply passionate about driving growth through excelling customer service and offerings. But there has been more than usual pressure on pricing coming from the largest players in the industry fighting against the deteriorating trend

in market share development and prolonged replacement cycle time and all of the Group's customers have been facing intensifying challenges of various kinds, both operational and financial and winning business is subject to lengthy, competitive bid selection processes and we have to dedicate significant development expenditures and engineering resources in pursuit of a single customer opportunity. To reduce concentration risk, we focus on identifying and developing relationships with new customers that meet our targeted profile, which includes financial stability, need for OEM/ODM services or turnkey manufacturing, growth potential and long-term relationship stability. The Group has also made concentrated efforts to 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, upgrading equipment, improving quality and responsiveness and flexibility and yield, magnifying efficiency, escalating automation, executing solid cost-control measure and cultivating talents.

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

*(I) Overseas Operation in Asia*

With supply chains stretched thin and backups at ports in the first half of 2022 and China's zero-COVID policy, some of the Group's customers have been asking to carry out some of the production out of China to reduce reliance. 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 capacity and capability are vital to reduce obsolescence and COVID-19 disruption 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 in India with huge domestic market which continues to

grow in coming years. India has attractive attributes such as a diverse business landscape, skilled and affordable workforce, huge domestic market with growing spending ability and robust GDP, large English-speaking young population, strong macroeconomic indicators, and a stable political environment. On the policy front too, several initiatives including Make-in — India and FDI liberalisation have helped bolster India's position as a promising player in the supply chain. Following the COVID-19 pandemic, there is a lot of focus on Vietnam and India, as both countries are critical economic zones for new supply chain connections and both Vietnam and India can complement each other in the Indo-Pacific supply chain network.

(a) India Operation

Bharat FIH Limited (BFIH) (formerly known as Rising Stars Mobile India Private Limited) is one of the largest Electronic Manufacturing Services (EMS) provider in India which commenced operations in 2015 with a focus on the manufacturing of mobile phones serving the largest smartphone OEM in India. BFIH's aim is to maintain its position as the leading EMS provider in India and to become a leader in the country's ODM market in the near term. In addition to BFIH's well- established EMS services and capabilities, which mainly comprise manufacturing services, BFIH has been building the capabilities to provide Original Equipment Manufacturers (OEMs) with a comprehensive, vertically integrated "one-stop solution" comprising a range of ODM services including product design and development, component manufacturing and sourcing, logistics, and after-sales services. With expansion of service offerings BFIH will be able to further reduce manufacturing costs, improve supply chain management, reduce inventory obsolescence and product fulfilment time, and meet their time-to-market, volume-to- market and time-to-money requirements. Mechanical parts and casings are key components of mobile phone and BFIH has also started mechanics services for feature phones so that it can reduce the dependence on third-party providers. It is also building the capabilities to provide mechanics services for smart phones and this can assist mobile phone OEMs with their time-to-market and time-to-volume requirements. In this regard, BFIH intends to deepen its localisation strategy to manufacture and source components and other inputs, thereby reducing dependence on imports and hedging against the risk of global supply instability.

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

BFIH conducts its operations across three campuses based in the states of Andhra Pradesh and Tamil Nadu in India, each of which integrates manufacturing, warehousing, logistics and accommodation facilities. Its campuses comprise an aggregate of approximately 90+ production lines consisting of surface mount technology (SMT) lines, full product assembly lines and sub-assembly mechanics lines. Its campuses are staffed with a workforce of over 25,000, of whom approximately 85% are women. BFIH's operations are enhanced by its product research and development teams who operate at its R&D centre based at the Indian Institute of Technology (Madras) Research Park. BFIH's R&D capabilities enable it to offer customers innovative EMS and ODM solutions, and also provide technological solutions to increase operational and cost efficiencies in its own processes.

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

The recruitment, training, talent development and retention of skilled and experienced management and employees is essential to enable BFIH to deliver high quality services to its customers. BFIH continues to provide its workforce with training and development programmes, including external vocational and skills training. As part of its ESG initiatives, BFIH will continue to recruit and promote women in its workforce. Its environmental initiatives include the integration of sustainable practices in its business by building green capabilities, managing water consumption and monitoring our CO2 emissions. BFIH continues to adhere to the required standards of environmental compliance in its operations (including ISO 14001:2015 certification for environmental compliance management systems), and strives to

ensure ESG adherence across its business and supply chain, thereby also assisting its OEM customers and their ultimate consumers in their ESG objectives and aspirations. Lately, higher prices of smartphones and general inflationary pressures are slightly hurting demand for the devices in India. Also, there are some signs of the replacement cycle going up, meaning consumers are keeping their current device a little longer (compared to 2019/20) and delaying the purchase. First-time smartphone buyers are unable to enter the smartphone market due to higher costs of acquiring a smartphone spurring a slowdown in conversion of feature phone users to 4G/5G smartphones.

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

BFIH is keen to do export business as BFIH's location in India provides it with a geographical advantage and enables it to deliver products to local markets in those regions quickly and at competitive cost. In furtherance to its export strategy, BFIH has already started exporting some feature phones to the Middle East for our customer and is also exploring opportunities to collaborate with mobile operators in Europe and the 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. Currently, no component shortage is being witnessed which can have a material impact on BFIH's operations. Rising inflation due to tighter monetary policy and a rise in input costs is weakening demand for mass market smartphone models and this remains as the biggest risk on business in 2023.

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). However, in view of the current market conditions, the Company has decided to delay the timetable for the proposed spin-off and separate listing of the equity shares of BFIH (the "Proposed Spin-off") announced on 22 December 2021. The Company considers that the Proposed Spin-off (if it proceeds) will be commercially beneficial to the Company and BFIH as explained in the Announcement dated 22 December 2021 and the Circular dated 24 December 2021 and the Company intends to continue to pursue the Proposed Spin-off when market conditions improve. Shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, applicable law, market conditions and other factors and accordingly, there is no assurance that the Proposed Spin-off will take place or as to when it may take place.

(b) Vietnam Operation

Vietnam is one of the most promising land for the next industrial boom and has been one of the world's fastest growing emerging markets in the past decade, which is boosted by strong foreign direct investment inflows into its 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 manufacturing industry is driven by several key factors. Firstly, Vietnam is touted as a low-cost manufacturer with competitive labor costs. Secondly, Vietnam has a relatively large, well-educated labor force, making it an attractive hub for production. Many manufacturers in the global supply chain of major firms are gradually focusing on Vietnam and the demand for skilled labour keeps increasing. The deep integration of Vietnam's economy to the global was hit by the COVID-19 pandemic, which posed downside risks to Vietnam's economy in 2020 and 2021. The country had a positive start in 2021 when business opportunities have arisen thanks to Vietnam's geo-political advantage and adoption of the "China Plus One" strategy by firms and the impact from the U.S.-Sino trade war. The economy grew 8.02% in 2022, the fastest annual pace since 1997 and higher than an official growth target of 6.0% to 6.5%. This was backed by strong domestic retail sales and exports, in particular manufacturing of textiles, footwear and electronics for big-name international brands. Meanwhile, the CPI in 2022 posted a year-on-year rise of 3.15% meeting the below 4% target set by its top legislature and also lower than other major economy entities. However, with the large openness of economy of Vietnam, the positive outlook and recovery prospects are subject to heightened risks when the world economy declines and inflation is high, especially in Vietnam's major trading partners, it will have a direct and strong impact on the recovery and economic development of Vietnam. External risks also include growth slowdown or stagflation in main export markets, tightening global financial conditions, flare-ups in more vaccine-resistant COVID-19 variants, further commodity price shocks and continued global supply chain disruptions. Domestic challenges in Vietnam include continued labor shortages, the risk of higher inflation, and heightened financial sector risks. Vietnam is targeting GDP growth of

6.5% and inflation at 4.5% for 2023. In the context of fast-changing volatility in the world, Vietnam Government is putting the effort of the resilience and self-reliance of the economy. Macroeconomic policies should strike a balance between supporting the recovery and providing targeted assistance to vulnerable sections of the economy, while containing inflationary pressures.

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. In 2022, Fushan started its own sales operation to capture local and international business opportunities and the factory has succeeded in receiving great and promising responses. Fushan is bravely taking this one-of-a-kind opportunity to establish another milestone, ready to face any adverse challenges for business growth in the future.

*(II) Diversification*

The Group has been engaged in 5G, IoV (Internet of Vehicles) and AI (Artificial Intelligence) since 2019 for building up the Internet and the mobile ecosystem, actively expanding the Group's participation in the relevant product and service segments of the 5G, IoV and AI businesses through the utilisation of the Group's expertise and experience and core competencies in providing its innovative software design and hardware development services as well as wireless communication and information exchange technologies in support of the development of such business segments together with ancillary networks and ecosystem. At the end of December 2021, the Mobile Drive Group ("Mobile Drive") previously wholly-owned by the Group has become jointly owned by the Group and Stellantis N.V. ("Stellantis"), one of the world's leading automakers and a mobility provider, combining with wide resource and solid experience from both sides, Mobile Drive leveraged its expertise in wireless communication and automotive industry to focus on the software and hardware integration to develop a smart cockpit solution for in-vehicle infotainment system. With that, Mobile Drive's respective financial results, assets and liabilities have no longer been consolidated into the Group's financial statements and the share of profits/losses has been accounted 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 obtain more automotive functional safety certifications. Through activating and optimising the current manufacturing capacity, the Group does not need to make heavy

capital investment but develops the automotive products as customers' requirements at the same time. The Group utilised the past experience in information and communications technology industry and focused on automobile communication parts, mechanical parts, components and PCBA. Most importantly, 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 in return management and services and product repair/refurbish solutions in mobile device and smart consumer electronics devices. The repair service centers are close to market and are scalable with the 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 customers to successfully navigate through post-pandemic difficult times, such as the current high inflation challenges and potential global economy slowdown. The extensive global expertise provides a solid foundation for serving existing and potential clients across national boundaries.

*Major Customers*

The Group's major customers include top international brands, which provide creditable products and have already acquired a substantial market share in their market of expertise. The Group's strategy has been establishing and maintaining long-term business relationships with leading companies with size and growth characteristics and seek to expand these relationships to include additional product lines and services, continuously develop and penetrate Chinese and international brand customers, put efforts to grow and diversify its lineup, and continue to expand its production capacity in India and Vietnam in order to meet the needs of customers to develop markets overseas and we have been successful to capitalise on the growth of domestic market in these countries and have continued to actively develop new customers of different industries in India and diversify both customer and product base. However, the Group's customers have continued to face several unavoidable macroeconomic problems inclusive of unexpected and strict China's COVID-19 controls, Ukraine-Russia warfare which disturbed the world's supply chain and the surging inflation rate across all countries together with quantitative tightening policy have pushed up the risk of economic recession in the globe. On the demand side, under the difficult economic situation and fears of an economic slowdown, customer preference has been changed to saving more money to support the growing living cost; in other words, the decline in demand in durable goods

including consumer electronics in 2022 was the most impactful reason to worsen the Group's customers' business performance. The Group relies on a relatively small number of customers for a substantial portion of our sales, and the performance of our customers in the end markets and their outsourcing strategies could affect/reduce our shipment performance. 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.

New customer development is important to the Group and the Group has focused 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. 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) The Group's key Chinese customer initially focused on its domestic market, capital, technical and know-how advances, but in these years, the customer has shifted focus to global expansion and made extremely success in different countries and markets (like India and other developing countries especially Central and Eastern Europe and Southern America). However, the customer could not be insulated from the macroeconomic challenges. The entire mobile phone market faced a headwind and reported a year-over-year decline due to supply chain disruption, surging inflation, and diminished consumer demand, coupled with China's nationwide lockdowns, which are exacerbating the difficult situation. According to IDC report, this customer shipped globally 153.2 million smartphones in 2022, down by 19.8% compared to last year. In the first half of 2022, the new smartphones launched by this customer in China market were not well received by the market as its selling price was high and its Chinese competitors were ramping back up while Chinese consumers got hammered from two sides as the property market disintegrated and tough COVID-control measures punished job and income growth. It

also faced headwinds abroad and had to fend off rising regulatory pressure in India, the company's second-largest market by shipments. However, the president of the customer emphasised during their conference call that the decline in revenue mainly came from the impact of the global environment, which affected the whole industry, not a specific company. "Global inflation, dollar interest rate hikes, and exchange rate fluctuations have brought us a lot of uncertainties, and repeated epidemics in China have also had a great impact on us," the president said frankly. Additionally, due to sluggish demand caused by these macroeconomic issues, the customer has dealt with cleaning up its accumulated inventory since the second quarter of last year by curating marketing promotions during seasonal shopping festivals eroded its overall profitability. On the bright side, the volumes of its high-end smartphones priced at RMB3,000 and above in mainland China, increased by 14% year-over-year in the third 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. The Group develops and manufactures and ships 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 and global operation and manufacturing capabilities, which can cope with customer global diversification development and do high end and more complicated programs, and satisfy the customer's requirements and expectations in terms of the ability to ramp up production in a reduced timeframe while achieving very high yield rate. But there are many challenges as the macroeconomic environment is not good and market research indicates that consumers now allocate money to leisure and meals rather than consumer electronics. In addition, smart speakers now become growingly saturated in the U.S. market. Ensky is a trading company which has a long-established relationship with U.S. customers and sells consumer electronic products to them. There has been very strong market demand for eReaders and voice interaction products as one of Ensky's U.S. customers has been growing very fast and dominant worldwide. The sales to Ensky are grouped under Asia segment as Ensky is a Singapore registered company. Ensky was acquired by Hon Hai on 1 January 2020 and became a wholly-owned subsidiary of Hon Hai and a connected person of the Company pursuant to the Listing Rules. Due to the change of its business model, Hon Hai has gradually changed the buying entity from Ensky to other companies in Hon Hai Technology Group since 2022.

(iv) Sharp Corporation ("Sharp") is a connected person of the Company pursuant to the Listing Rules, as it is an associate of Hon Hai, the ultimate controlling shareholder of the Company. Sharp offers a variety of electronic products including smart phones, home appliances, displays and other IoT devices. The current selling markets of this customer include Japan, Taiwan, Indonesia and U.S., with 98% of total shipments going to its home market, Japan. Due to several global headwinds, tense competition and the cancellation of one mid-range phone, its smartphone shipment volume in 2022 declined by 15.1%

worldwide and 17.2% in Japan, according to IDC data. Moreover, to curb the surging inflation, many governments have raised interest rates resulting in a serious depreciation of Japanese yen, Sharp was significantly impacted by the unfavorable exchange rate, reporting an operating loss in the ICT segment (including mobile and PC) of -4.4%. This customer is expected to face fiercer competition as the challenges continue into 2023. Japanese companies are increasingly asking to decouple the supply chain from China, amid the backdrop of Sino-U.S. dispute. In order to explore additional business opportunities, Sharp has started to offer other electronic devices such as MiFi routers and tablets with the help of the Group's R&D resources and capabilities. In addition, responding to the trend of environmental sustainability, Sharp has been focusing on leveraging recycled plastic materials to develop mobile phone's components and has launched environmentally-friendly smartphones in recent years, which have also been impelled by the Group's resources.

(v) HMD is an independent Finnish company. The company is the only major European smartphone provider distributing Nokia phones, tablets, and accessories to the world. In addition, HMD offers a suite of solutions for enterprise customers. The company is driven by the needs of its customers and puts sustainability, longevity, security, durability, and affordability at the core of everything it does. This is in line with its mission: connecting the world without costing the earth. While HMD grew year on year in the first half of 2022, the global economic challenges arising from high inflation and interest rates, depreciation in emerging market currencies and resulting fluctuation in consumer demand, resulting in severe economic instability, were more challenging to HMD's operations than initially anticipated and especially impacted HMD's business performance in the second half of 2022. HMD has taken a number of actions including active management of operating expenses, reviewing agreements with key partners and optimising their supply chain to improve their future financial position. HMD's commitment to long-term sustainability and innovation is unwavering, despite external challenges and economic uncertainties. In total, HMD Global announced 13 new smartphones across 2022, in addition to four feature phones and two tablets. HMD continued to update its feature phones with a new portfolio launch in July 2022, combining the ongoing desire from customers to pair retro devices with genuine, impactful innovation. Three new Nokia iconic feature phones enhanced HMD's global portfolio. HMD ensures that all its devices are made to last for longer and are used for good. It also means reimaging how its products are sold.

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 2.69% and 8.93% of the Group's total revenue from the sales of goods and rendering of services, respectively for the current period. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. Revenue attributable to the Hon Hai Technology Group accounted for approximately 29.95% of the Group's total revenue in the current period. After a significantly declining market volume in fourth quarter of 2022, market analysts expect a sluggish start for 2023, especially in emerging markets. HMD has implemented its reorganisation accordingly, to be prepared for lower revenue levels. HMD will put more focus on markets where it has gained share in 2022 and where its value proposition brings most value.

Amongst the Group's five largest customers during the current period, which accounted for approximately 91.2% of the Group's total revenue, and four of them have had long-term and well-established relationships with the Group for more than five years whilst other one have been the Group's customers for more than two years. These major customers are not required to commit to a certain minimum purchase value or volume from the Group over a period and we bid on a program-by-program basis and typically receive customer purchase orders for specific quantities and timing of products. Our customer-focused factories are flexible and can be reconfigured as needed to meet customer-specific product requirements and fluctuations in volumes. But of course, volatility in demand will affect our material requirement planning and production planning and asset utilisation. 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 time, innovation and enhanced user experience and product pricing and quality are paramount and loss of or changes in market position of any of these customers or their products in any region may materially and adversely affect the Group's business, financial condition and results of operation, especially in view of the concentration of its sales to these customers. In addition, if one or more of our major customers were to become insolvent or otherwise become unable to pay us on a timely basis, or at all, our financial condition could be jeopardised. The Group's reliance on major customers means that the Group's performance is directly affected by the performance and competitiveness and development of these customers and their outsourcing and offshoring or onshoring strategy in a challenging handset industry with a lot of OEM and ODM competitors and the Group pays attention to the change of market trend and end customer behaviour and external market dynamics and general economy and China's zero-COVID policy and possible lockdowns and industry-wide component supply instability and supply chain constraint and logistics chaos in China and global geo-political tensions. The current tensions on commodity markets and the consequent high prices are due to the supply-demand mismatch exacerbated by the ongoing war in Ukraine. 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 and credit position of customers the Group serves, as well as end markets and individual market segment of the Group. The Group continues to closely manage and control expenses and headcount and capital resources to remain lean and agile and maximise preparedness and the ability to respond in a quick manner as external circumstances and uncontrollable and unpredictable geo-political situation change. But as reiterated, idle costs are high.

The credit period granted to the Group's major customers (whether or not it is a connected person of the Company) ranges from 30 to 90 days, which is in line with those granted to other customers. The allowance for credit losses made for the current period was US$80.5 million (when compared to the allowance for credit losses of US$4.7 million made for the same period in 2021). The pandemic has stalled the economic engine worldwide, and the repercussions of this are not limited to any one industry. As the current economic crisis unfolds against the backdrop of a public health emergency of COVID-19, the unprecedented rise in unemployment and disruption in economic activity is putting a strain on the solvency of customers and companies. 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 deteriorating global economy, lingering COVID-19, soaring inflation, escalating interest rates and Ukraine warfare and keen competition and drop of demand and poor business performance, some of the Group's customers including major customer like HMD, which distributes phones to Europe and Africa experienced financial distress and tight cash flow, and there was also drop of demand for the Group's products and services from these customers, and the Group had experienced huge difficulties in recovering trade receivables from HMD and default risk increased dramatically. HMD's raising of funds was not successful in 2022 and the Company is closely monitoring the level of outstanding account receivable, and evaluating whether HMD can continue as a going concern and risk to the collection of overdue account receivables and associated default risk. Risk minimisation actions were taken towards this to cap accounts receivable balance with HMD and shipment quantity for the current ongoing feature phone projects is limited to the corresponding amount of payments made by HMD so that outstanding accounts receivable does not exceed a preset cap amount. There is also need to reduce excess open purchase order and component inventory amount. Starting in the second half of 2022, we rejected new Nokia-branded phone projects and requested HMD to consign key components, namely memory and earphones. Furthermore, we also adjusted supply chain management planning by setting high priority on shipping out slow moving components projects first to avoiding excess inventory accumulation. After making the assessment, management confirmed that the risk has increased dramatically and ultimately HMD may not be able to meet obligations as they come due based on what's known and knowable. For customer with increasing credit risk, the management had appointed an independent valuer to assist in the estimation of the ECL provision of the trade receivable due from such customer by determining an appropriate probability of default rate, forward looking adjustments and estimated loss given default rate. The Group uses provision matrix to calculate expected credit loss allowances for trade receivables which are not credit-impaired or with increasing credit risk. The provision matrix is based on debtor's aging of groups of various debtors that have similar loss patterns. The provision rate is based on the Group's historical observed default rates taking into consideration of forward-looking information that is reasonable and supportable and available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In light of high uncertainties of global economy and handset market and heightened geo-political tension, the Group reassessed the expected credit loss allowances by increasing the expected credit loss percentage for overdue trade receivables during the current year. The Group also has some small customers and the exposure to financially troubled customers or suppliers may adversely affect our financial results. The Company will continue to closely monitor the situation and factors affecting cash position and payment and credit worthiness of customers and if needed, change the credit limit or credit days and/or control the volume of business with these customers and take necessary collection actions and credit control actions (like shipment block) according to Company policy and make adequate allowance for expected credit losses arising from accounts receivables according to requirements of relevant accounting standards and outlook of credit position of the customers. 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 mobile devices manufacturing business, the Group also has a strong reverse logistics, repair/refurbish services and manufacturing services locate in North America region which offer integrated solutions providing American customers the end-to-end value-added manufacturing services and after-market-service covering the entire product life cycle with best-in-class quality, cost and ability to deliver under the circumstance of global supply chain restructure. The Group's services include after-market management, repair/refurbish services, product asset-recovery, excess inventory on-line sales service, integrated regional manufacturing, packaging, and fulfillment. Forward/reverse logistics and manufacturing expertise are provided by the Group to multiple product lines such as mobile phones, consumer/industrial drones, smart home devices, set-top boxes, IoT products, medical product, and automotive electronics and its customers including name brand OEM, mobile carriers and retail channels. The Group aims to continue to grow fulfillment and regional manufacturing services to the automotive and medical industry. The core competencies which the Group upholds and demonstrates in this part of business are (1) strong core team with talents and expertise in the field of both EMS and after-market services area; (2) geographically central HUB location advantage in Dallas Texas for logistic services and proximity location advantage of boarder Mexico factory for manufacturing strategies under global supply chain restructure; (3) robust quality system and crucial certifications, such as ISO 13485 for medical and 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 from the Company's global resources; and (6) E2E (End-to-End), complete after-market service solutions and online-offline operation integrations, and customised service-models. Operations at both sites in U.S. and Mexico have been facing more unexpected challenges in 2022, especially starting from the third quarter. The unexpected war in Europe, historical high inflation rates and labor shortages etc. are impacting our operation sites. However, 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 continuously launched another new project in the fourth quarter, will keep mass production operation through the whole year 2023. 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 in the region for the coming years.

*Impacts of COVID-19 and Supply Chain Instability*

(a) China

We have two ways to deal with COVID-19 pandemic. First is herd immunity and second is dynamic zero-COVID. Till December 2022, herd immunity was not accepted in China and zero-COVID policy has for years aimed to stamp out any spread of the coronavirus through tight lockdowns and mandatory isolation in government facilities, along with a host of other measures. It was enforced and repeatedly espoused from every level of officialdom despite the huge personal inconvenience it imposed on China's residents and the tremendous toll it took on China's economy. Officials had to enforce increasingly stringent measures to fulfill its ongoing goal of keeping the virus out as loosening up would be too dangerous for vulnerable citizens like the elderly and would overwhelm the country's hospital system. People had to look beyond the short term and see the tradeoffs between controlling the pandemic and the resulting social and economic disruptions.

In the first half of 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 and locked down major hubs of economic activity and kept millions under lockdown for months and a lot of factories, ports, shops, restaurants, freight, shipping services and many other economic activities were closed. The extended blanket lockdowns exacerbated supply-chain disruptions and worsened China's economy, which was already weakened by the continuing impacts of the trade-war with the United States; deleveraging effects, especially in the property sector; geopolitical issues tightened regulations on certain sectors and the collateral damage as a result of the Russia-Ukraine war. With provinces accounting for nearly a quarter of GDP under partial or full lockdown, the cost of China's zero-COVID policy climbed and China's economy lost significant steam. In April, due to mobility and logistics restrictions, retail sales and industrial production recorded their sharpest annual contractions since early 2020. The economy regained some momentum in May, as the impact of the pandemic eased, with retail sales, industrial production, fixed investment and export figures all beating expectations. However, overall economic activity remained a downfall, with the real estate market sector significantly contracted. Towards the end of the second quarter, the evident fall in total COVID-19 cases and the gradual easing of lockdowns in many areas (including Shanghai) has aided household spending, exports and industrial activity. But the threat of further stop-start restrictions has continued to weigh on sentiment, with Beijing and Shanghai resuming mass testing in mid-June in response to the emergence of new COVID-19 clusters. 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 stall in China's industrial activity due to city lockdowns and factory shutdowns and restrictions on inland transport and people mobility have sent shockwaves through the entire supply chains and posed huge and unprecedented risks to global output. In addition, the disruption to logistics and trucking and freight infrastructure increased delays in shipping cargo by air and sea. Continued supply-chain disruptions created further inflationary pressure, which spread globally very quickly.

In the second half of 2022, even as countries around the world lift COVID-19 restrictions and allow the world to transition to endemic COVID-19 and people in almost every country except China are increasingly leading relatively normal lives, China maintained its strict zero-COVID regime till December 2022 attempting to completely eradicate any outbreak of COVID-19 via carrying out mass testing, big lockdowns and strictest restrictions to contain outbreaks. The social and economic costs of maintaining zero-COVID were mounting and the lockdowns propelled the economy into trouble, deepening a general sense of uncertainty in the economy, hurting consumption and investment, slowing down manufacturing and economic activities and driving up unemployment, and contributing to the turmoil of the property market. Affected by the pandemic, companies were not able to absorb employment and unemployment rate of young demographic due to labour-supply overload was record high and raised serious concerns, particularly against the backdrop of a slowing economy with losing momentum and slow revival from persistent COVID-related lockdowns.

The sheer importance of China when it came to global trade means that any small disruption in China, would have a ripple effect across the supply chain. 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 faced waning momentum in its own domestic economy, the rest of the world had been considering whether China could be relied upon as a key engine of growth and supply. For foreign companies depending on China is increasingly risky, and more are adopting China-plus One strategy and shifting production and supply chain links to emerging economies such as Vietnam, Thailand, Malaysia, Indonesia, Philippines and India, and even home. These countries are seen as attractive sourcing destinations for multinational companies to relocate their global supply chains.

On 7 December 2022, China announced a series of measures rolling back some of its most draconian and hardline "zero-COVID" anti-coronavirus restrictions since the pandemic began three years ago and loosened nationwide rules which hammered the world's second-largest economy. Since the pandemic began, however, as part of its absolutist approach to controlling the virus, the Chinese government had managed to broadly convince people across the country that COVID-19 was an often-lethal threat to public health. The sweeping changes indicated China finally moved away from its zero-COVID policy and looked to "live with the virus" like the rest of the world. Researchers said that the timing of the reopening in December might not be ideal as there would be a large movement of the population travelling and returning home for Chinese New Year which could further increase viral spread. Without additional support, the eased restrictions might not help businesses to recover from protracted lockdowns or remove the social stigma attached to COVID-19, But some argued that the fact that the rest of the world's economy had long since re-opened and started producing goods means that any supply snags due to China this time around would not be as pronounced as they were in 2021 and 2022. In February 2023, there was no obvious rebound during Chinese New Year holidays, where millions returned home and reunited for family gatherings. The reported decline corresponded with the expected timing of an end to this major wave. COVID-19 pandemic tore through Chinese cities and towns after authorities lifted zero-COVID restrictions in December. However, fever clinic visit rates dropped over 90% through January and hospitalisation rates were down over 85% and the drop in death tolls followed the decline in the first huge wave of cases after China relaxed its restrictions is understandable and it has been seen in virtually every country experiencing a large COVID-19 wave.

In 2022, before the uplifting of zero-COVID control measures in December 2022, the general economy and customers and suppliers and supply chain and factory operations had been greatly affected. 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 outbreak of COVID-19 and zero-COVID policy of China and city lockdowns to general economy and handset demand and supply chain and factory operations and the Group's financial or operational performance as many factors were involved and intertwined. Some impacts were immediate, whilst some could be long-lasting. During the year, the size of the impact of the COVID-19 pandemic and zero-COVID policy of China and component supply instability on the Group's business hinged on the duration and

severity. In first eleven months of 2022, the severity depended on infection resurgences and mutations in China, the duration of ongoing supply chain constraints directly and indirectly caused by the surging number of cases in China, the extent of the impact of the outbreak on business and financial conditions of our customers and suppliers, the speed at which those Chinese suppliers and logistics providers can return to and maintain full production, the number of employees who were infected, the status of labour shortages, geographic locations of outbreaks, actions that government authorities took in response, the need for temporary factory shutdown and closures and "closed-loop management" and the duration and the speed of spreading and the continued efficacy and availability of COVID-19 vaccines, and the impact of supplier prioritisation of backlog. Our ability to continue to manufacture products in China is highly dependent on our ability to manage risks in a good and proactive manner and 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. The Group will continuously evaluate the situation and, where appropriate, disclose 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. As mentioned above, it was unlucky that before the relaxation of zero-COVID control in December, in November, there was COVID-9 outbreak in one of Group's factory in Northern China and the production was halted for a period of time

(b) Vietnam

Vietnam had applied the zero-COVID policy during the first half of 2021 and gained certain success in controlling the number of COVID-19 cases across the country. Nevertheless, Vietnam was not well prepared for the April 2021 outbreak and this wave of outbreak and the emergence of numerous mutants led to severe negative impacts on both the overall society and economy of Vietnam. Shelter-in-place orders were issued, gatherings were restricted, and factories shut down as the government attempted to mitigate the spread of the pandemic. In early July 2021, a late but relatively successful largest-ever anti-COVID-19 national vaccination campaign and immunisation was launched. By late December 2021, just within five months of the vaccination campaign launch, over 75% of the population had received one jab and over 55% had been fully vaccinated (two jabs) and this was a remarkable achievement. The wide and notable speed of the COVID-19 vaccination coverage allowed the government to switch from a zero-COVID policy to a "living with COVID-19" policy under which Vietnam's economy could be reopened while maintaining health precautions. The new policy has inevitably led to an increase in infection rates; however, rapid vaccination and booster shots have helped reduce the fatality rate. In 2022, Vietnam's supply chain disruption showed signs of easing, with delays becoming less pronounced and companies were finally able to start rebuilding workforces, albeit marginally, overcoming some of the difficulties by attracting staff back to work.

For other countries in Vietnam and India, which the Group has significant operations, they have been opened and there is not any lockdown anymore and the manufacturing operations there are smooth.

*Supply Chain Constraints and component price movement*

Material supply constraint that afflicted the world in the past two some years were gone. In its place, declining demand and a potential recession were the concerns in this business. Yes, the adjustment cycle in certain semiconductor sectors was yet to be completed and it still limits supply to certain applications. Other than that, excessive high stock levels in the channel resulting from declining demand had grown into a business hazard to every party along the supply chain in recent months. Quickly restoring inventory back to healthy levels would be the top priority in coming quarters. Consumer price increase induced by inflation continuingly staying at high level, anticipating tight monetary policy by major economies in next 12 months, high energy cost in Europe led by Russia Ukraine conflict and strict COVID containment measures imposed in China may stay unchanged were keeping market vulnerable. Demand had been and remained highly volatile with very limited forward visibility. No supply challenge was anticipated in the fourth quarter of 2022 except for certain semiconductor sectors, at which order lead time remains to be extremely long. Shipment for the year was projected to be significantly lower than the forecast released earlier in the first half of 2022. Geographically, the largest mobile market in the world, China suffered much more than other countries and regions. Consumer spending had been hindered by continual COVID lockdowns in the country and worries about its economy's future. Structure-wise, market drop were more severe in mid and low tiers, consumers worldwide felt the pinch brought by inflation which had undercut deep into consumer demand in real life. Non-essential spending clearly was either cut sharply or postponed.

The market will always find its way when given enough time and patience. As often times in history, in the form of pricing and inventory adjustments, hefty price tags were being paid as the market recovered through this lengthy adjustment cycle over the last three years. Supply continued to improve in the third quarter. Most critical challenges which had troubled the market immensely disappeared. Some still remained and simply stayed around just a bit longer. Logistics congestion in both sea and air freight was also gone. Shipping rate quote had been continuing on its downward slide and the latest report in the news was, container had not been ever enough at the height of COVID-19 was now found blocking up space in container yard and they were empty. Semiconductor supply was no longer a constraint. Certain suppliers decided to take up penalty listed in LTAs they made with foundries for wafer capacity in late 2021, over having to take in finished products delivery in coming months. Nonetheless, certain semiconductor sectors were still in midst of their adjustment cycles, supply remained tight, and this will continue into the first half of 2023 or later. Product demand in our business has clearly been devastated by inflation, by continuing tightened monetary policy in major economies, by an endless Russia-Ukraine conflict and, by rising worries about a potential recession to emerge in not far future. Market remains sensitive and fragile in both demand and supply.

Third-quarter demand supply went head to heels if set side by side with experiences at the beginning of the year in this industry and the consumer electronics market. Irrational and unrealistic supply limitations were no longer in existence. Demand could be filled with supply after terms were suitably negotiated and agreed upon. Half-empty lines and high inventory were a common scene to most across the market. Typical seasonality usually taking place in second half of the year, that usually shifted supply chain into high gear, didn't happen in 2022. Leading brands in China suffered more as China's domestic market contracted more

than the rest of the world. Leading brands in China suffered more as price-conscious consumers backed off from spending more in product segments that were dominated by them. Inflation and high energy costs washed out demand in Europe, and the US continued to struggle in holding inflation at bay in spite of a series of aggressive monetary adjustments that were put in place since the second quarter. Having said so, on the bright side, certain brands and products had shown good resilience amid market negativities. COVID limitations and restrictions were lifted almost in every country or region, economic activities have moved back to normal. It was known excessive inventory flooded through the whole supply chain. The market had been reacting and adjusting in the past months and it will continue to do so in the coming six months.

In practice, a drop in handset demand and in consumer electronics market did not necessarily translate into ample supply. ICs made from certain technology process nodes still required a very long order lead time. Supply remained short of demand in those sectors. Constraints in these categories would carry on into the first half of 2023 or later. In particular, main chipset supply was no longer in constraint, rather the market was actually indicating an over-supply in main chipset at which was anticipated to last till the first half of 2023.

Component pricing could not be dictated entirely by demand and supply dynamics. Untamable high inflation in major economies, high energy prices in Europe, and disruptions in both demand and supply fueled by continuing regular COVID tests to the population and smaller area lockdowns in China had held costs high. In contrast to a weak market demand, leading semiconductor makers will be raising their selling prices from 2023 up to 10% or more by claims on higher cost. Chipset pricing stayed unchanged at high levels in the third quarter. EE components inclusive of passive parts came lower between 0.5% to 3%. Memory pricing is always superly dynamic, is always subject to change from day to day, experienced 15% to 20% price cut. Custom-made components were more vulnerable and were tied to specific product demand, in which case, on a broader scale, display pricing came 10% or more lower; battery stayed flat in the third and fourth quarter, even sub-tier material began to move upward again, they were standing at market high.

As we realise by now, the world missed the best time window to make a fix to escalating inflation for various economic and political reasons. Quick and high interest rate hike and fast pace tapering from earlier 2022 till now are medications in super heavy dosage aiming for a quick cure. The target was to rapidly drive down spending and investment. And market demand would consequently come down as a result. There had been signs that U.S. inflation could have hit its high and corporations had started adjusting their excessive work force, positive signs showing inflation could finally be contained. However, interest rates could stay high for some months to come. Uncertainty created by regional geo-politics still lingers. Russia-Ukraine conflict since March had disrupted energy supply and diminished consumer confidence in Europe. U.S.-China trade dispute and interest conflict in Asia-Pacific region had brought in longer term concern to business. Lastly, in China, the market had been heavily penalised by the strict COVID-19 containment policy, too high a price to be paid under the name of COVID-19 containment. The domestic market lost its vitality through this daily grind-down at personal level, regular COVID checking and testing down to each person and community lockdown when a positive case was identified. In a country with 1.4 billion population, it was very difficult and very costly to maintain the policy over a long period of

time. While pondering future consequences, to everyone's surprise, China authority took the unexpected, all COVID requirements, restrictions were basically lifted overnight in December. Following with widespread infection to the mass population over a three-week period and then when it was over, pandemic came to the end to most people in China. China has finally been moving forward on its way to claim a normal life back.

Moving forward into 2023, no supply challenge is foreseen in our trade except certain ICs made from certain technology nodes, pricing is expected to come down in most commodities given flooded channel inventory and meager demand in the market; inflation, monetary policy change in major economies, Russia-Ukraine conflict and continuing U.S.-China tension are apparent uncertainties ahead down the road. However, in manufacturing, material availability in full square kits is essential, at which point the functionality or value of each component won't make a difference to production operations. If a product can be manufactured into one and shipped on time is what matters. Constraints to supply may only take place in some very few and rare circumstances. Market visibility is limited. In the first half of 2023, the challenge won't be about supply or pricing. Worry will have to be if market can hold up, if recession may escalate, if it may rise into global scale, how hard and how long. How soon can excessive inventory flooded in channel be moved and return back to healthy level. How best to maneuver through a stormy environment will be the challenge in 2023.

The recovery of the smartphone business will be a challenge in the coming quarters with the uncertainty in end-demand, economic development and continuing geo-political tensions in some regions of the world. All these add together are met with traditional low demand seasons in first half of the year in 2023. The Group continues to commit its efforts to try to overcome business difficulties and put in efforts to negotiate, discuss and arrange with its customers, vendors, suppliers and logistics partners to share risk, champion mutual benefits and foster long-term relationship among the parties in difficult times. In addition, there are also other challenging conditions that the Group has been facing since late 2017 have continued into 2023.

At those Asian countries in which the Group has manufacturing operations adopted different COVID-19 policies, challenges faced by factories in individual country vary.

(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. In particular, in the first half of 2022, in affected areas, manufacturing activities were usually either suspended or conducted under the "closed- loop" model, namely, workers living and working onsite, resulting in extremely limited manufacturing capacity. The COVID-19 pandemic had severely disrupted the balance between supply and demand in the smartphones market. Since China was the global manufacturing center for most of these devices and components, and with nationwide lockdown, the smartphone

manufacturing sector had been adversely hit by delayed shipments and weakened development of next-generation products. Also, the country had witnessed being choked off from suppliers, workers, and logistics networks. While many countries are now relying on vaccination and improved treatments, China had stuck to a policy of strict lockdowns and other restrictions. Achieving "zero-COVID" became more costly and difficult since Omicron was much more contagious than previous variants. Consumers and private firms were 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 declined as other nations fully reopened, while foreign direct investment into the country might drop given the strict restrictions on travel, production and logistics. Lockdowns in China were not only affecting the provinces or cities concerned, but also created logistical bottlenecks domestically (e.g. due to stringent controls over trucks going across provinces and truck drivers were trapped and ports were snarled). This meant that congestion in major ports was also visible, even though they remained operational. The lockdowns also affected availability of labour, suspended assembly lines, grounded workers, and deliveries of components and materials were delayed as a result of logistic chaos. But "closed-loop" system of factories has the advantage that workers would then not have contact with the general public. Market volatility has limited forward visibility. There were also added concerns over debt and a real estate bust which pointed to a slowdown in China's rapid recovery. China's strict zero-COVID policy had triggered economic disruptions that had rippled through global supply chains. City lockdowns also confined hundreds of millions of consumers at home. Recurring virus disruptions had therefore weighed on in-person activity.

COVID-19 outbreaks and the trade war and tension between the United States and China starting from last few years had 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". The pandemic and the Ukraine war had abruptly disrupted important supply chains, restricting the smooth flow of essential goods such as gasoline, materials and staple food, and thus calling into question validity of globalisation, which is the free flow of trade, capital, people, technology and ideas across borders, which had existed for years. In the manufacturing sector, the continuation of the zero-COVID policy in China accelerated the reconfiguration and the decoupling of the Chinese-centric global supply chain and multinationals considered diversifying from China and many companies had already reshored some portions of production, not because of an anti-globalisation backlash but because of rising costs, notably in China. The pandemic contributed to the trend of reversing the course of globalisation not only because the dependence on very long value chains for the supply of basic goods such as health care supplies became abruptly clear, but also because after years of liberalisations, in the West, COVID-19 and the climate change brought the government back into economic life. Beijing's zero-COVID policy measures in 2022 had prompted growing concern about risks of drags on the world's second-largest economy and the IMF had called on China to recalibrate its zero-COVID strategy as its economic growth shrinks. The world's second largest economy has seen its GDP fall and resulted the second lowest GDP growth in the past 50 years with only 3%, slightly better than the worst 2.2% happened in the 2020 COVID-19 outbreak yet much lower than China government's expectation of 5.5%. Although

conventional policies such as credit easing might help, the real growth bottlenecks remained 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 have 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 which led to shutdowns, sealed borders, and travel restrictions across the globe demonstrated the need for businesses to rethink their supply chains. One of the biggest learnings for manufacturers from the COVID-19 crisis has been the need to diversify their supply chains. As the risks of overdependence on a single vendor or even a single geography became apparent, manufacturers across the globe had realised the need to re-evaluate their supply chain strategies to mitigate risks arising from any crisis, natural disaster, or geopolitical issues. Diversifying the supplier base could also create a marketplace effect to help get material at the most competitive rates, to help optimise costs. 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 came with a high-risk level, companies were 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 had 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 moving 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 of the Group may fluctuate. Countries with large numbers of domestic consumers would witness home-grown manufacturers of OEMs and ODMs, mainly driven by initiatives and support of the respective governments. 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 in 2022, some 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 in limiting the impact of such adverse factors on operations. 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 have 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 of February 2022, over a billion vaccine doses had been administered across India. Our India sites had since then implemented a number of measures focused on the health and safety of its workforce. Most important of all, it had completely vaccinated its workforce. Whenever the threat of a subsequent wave of COVID-19 emerges, site management asked its employees to start a daily survey on a mobile app which contained simple multiple-choice questions regarding the employee's health status and symptoms, and other related information. The survey was designed to protect the safety of our employees and their families, maintain overall productivity, increase trust, and improve connectivity. Sites regularly tracked and verified its employees' health and well-being through reports generated by its COVID-19 Support Centre.

Global material supply constraint has eased considerably since the second half of 2022. 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 was a significant amount of stockpiling of semiconductors and integrated chipsets by OEMs in various sectors. From the second half of 2022, India operations bounced back sharply and only slight component shortages were witnessed which could have material impact on BFIH's operations. Rising inflation due to tighter monetary policy and rise in input costs weakened demand for mass market smartphone models and this remain one of the biggest risks on business in 2023.

(c) Vietnam

The impressive vaccination drive and accommodative policies in 2022 which relaxed movement restrictions domestically and internationally, have prompted a strategic shift towards living-with-COVID-19 which helped Vietnam economy to rebound from a severe pandemic wave in 2021 despite such strategy saw a surging number of infected cases across the Northern Vietnam and the Group's site in Vietnam in the first half of 2022 and 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 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.

Along with Vietnam's practices, Fushan had also carried out corresponding activities to protect our people and our production. Fushan, had strategised to keep "green zone of production" in terms of employees, working environment and emergency response team. For employees, we carried out propaganda & poster hanging & follow-up SOP guidance, prepared tracking list of sick-like employees and follow-up twice/day, 100% monitor body temperature at beginning of shift in peak time, 100% mask provide and wear as obligation. Besides, we had focused on periodical disinfection, supply and equip hand wash and sanitiser to all critical locations, making canteen barrier to keep safe eating distance, and setup quarantined area for customer & visitor to COVID-19 prevention purpose. In addition, Fushan strengthened to protect the factory out of pandemic by establishing and sustaining a special team, so called Anti-COVID-19 Emergency response team (ERT), who setup SOP to control visitors/contractors/customer entering, survey travel history, open daily meeting & cascade down to department members and 24/7 communication & follow-up if having any epidemic topic or issue. Particularly, Fushan emphasised on COVID-19 vaccination and often co-worked with local medical centers to give jabs to employees, even its contractors, suppliers or customers. Currently, besides keeping good practices with pandemic prevention and with opening policies of Governmental COVID-19 preventive activities, Fushan has been operating normally and safely without COVID-19 impacting human, working environment with policy of safe adaptation, flexibility and effective control of the COVID-19 pandemic.

Though achieving many abovementioned successful efforts and results on pandemic prevention and fighting in Fushan and Vietnam's COVID-19 situation was under control since second quarter of 2022, Chinese customs authorities had continued to impose the zero-COVID strategy which required stringent safety measures, which led to the delay in clearing container trucks then considerably smashed production of Fushan. Many containers must stay at border gates for 1 to 2 months. Thousands of trucks were stuck at border gates when they were closed due to COVID-19 outbreak and this resulted in raising fees of parking and idle costs of waiting. Delivery time was of course impacted, which led to material shortage. Despite the Vietnam government's efforts to cut short the customs clearance, China's border gate shutdown had left plan of road shipment

unfeasible and a lot of manufacturers in Vietnam had petitioned to Vietnam government to negotiate with the authorities of China on cushioning the border shutdown to ensure supply flow. At that time, Fushan had to work together with suppliers to check the actual situation and mutual policies of the countries and find out solutions; for instance, we had to use indirect ways of shipping from Shenzhen to Hong Kong and then to Haiphong port, Vietnam with overall cost and transit time increased.

The situation of pandemic in Vietnam becomes brighter and hope that the pandemic will be under control well not only in Vietnam but also in other neighbor countries and in the world, so that all economic and people activities become normal. Though with Fushan, we always make necessary changes to adapt to new developments and never give up, even with severe pandemics to keep people safety and production continuity.

***Key Relationships with Suppliers***

COVID-19 has very well served to uncover how interdependent and fragile global supply chains can be. It has demonstrated in real life, how having disruption in one part of the chain may ripple-down onward to all parts of the chain. From material manufacturers to suppliers and distributors with disruptions ultimately affecting consumers and economic growth. Prolonged supply chain disruptions have severely impacted market sentiment and consumer confidence with worries about persistent inflation and supply chain resilience and sustainability. COVID-19 has brought to light a structural vulnerability in modern global supply chains that may potentially dismantle the very architecture which has sustained them in the last half-century. Just-in-Time model hinges on a harmonious choreography among production, shipping, and stable demand, yet when the music stops, in its place, total chaos starts to cascade down the supply chain like a domino. Lived through severe labour shortages and doubled shipping time brought by regional lockdowns earlier in the year, strained supply chains that were disrupted still have to deal with steep recovery challenges and are struggling to bounce back. Manufacturers and distributors simply can't supply as much as they did in pre-pandemic for a variety of reasons, including labor shortage, late delivery of key components and raw material, etc.

Supply chain performance is always a key indicator in determining operation execution excellence within the Group. To address time-to-market, volume-to-market and time-to-volume requirements in this business, performance of manufacturing operation depends on in-time availability of components and other raw materials, and highly efficient management to inventory. The Group sources components and other materials required for conducting businesses from 1,200 reputable and qualified suppliers around the world. The Group has maintained stable business relationships over a long history with almost all of them. Maintaining on-time delivery of quality material at best-in-class competitive pricing and, at the same time, avoiding being restrained by certain key supply sources has been a constant challenge to procurement team of the Group. In addition to managing cost of top critical material, the Group will from time to time take necessary actions in maintaining a suitable inventory, open purchase order and working capital dynamic. And adequate cash reserve is always kept warranting sustainability of its operations. Considering unprecedented challenges presented by unbounded circumstances over the past couple years, the rise and fall of business has practically been largely dictated by supply chain performance, by its deliverables. COVID-19 constraint in certain countries and regions (China in particular), continuing U.S.-

China tension, lingering 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 components including chipsets, memory, electronic parts, display modules, camera modules, batteries, connectors, enclosures, and packaging material together make up the supply partners of the Group. They are selected through a clear set of requirements developed over a long supply management history. It contains specifically technical requirements, quality and reliability standard, price competitiveness, technical competence, innovation and engineering capacity, logistics requirement, service assessment, commercial terms, customers' requirement, capacity, peer recognition in the industry and financial strength. Vendors are then evaluated and admitted through qualification processes defined within the Group. And continuous supplier performance measurement (TQSCE, technology, quality, supply, cost and ESG) is being taken by the operation on a regular basis.

Components may not always be readily available at times of supply in constraint. The Group, from time to time, may not be able to continually obtain sufficient supply in meeting production schedules and it is one of the reasons why it is always challenging to publish order books and shipment volume forecast. Purchases made to top five suppliers in spend by the Group accounted for approximately 49.4% of total purchases made in the current period. Whilst the Group could have worked with many accessible sources in the market, over the years the Group has continually consolidated its spend to limited number of major suppliers to continually enjoy ease of procurement processing, supply continuity and favorable commercial terms (especially in pricing). All top five suppliers have had a long lasting and well-developed business partnership with the Group over the last five years or longer. They are not bounded by contract, nor are asked to keep manufacturing capacity, or, to produce and supply or guarantee minimum supply to the Group. At such, liability exposure is considered well administered for the Group. Given best-in class pricing is secured through purchase consolidation with handful of key suppliers, safety buffer planned and built on top of demand keeps supply disruption risk in the form of supply delay or interruption to ODM business reasonably contained. Customers are informed and are aware of such continuing challenge. Information is always adequately shared to customers on a timely manner. Contingency is built in, it can be triggered off when situation arises. Additionally, good number of alternative sources available in the market are always kept as fallback to work with at all times. Except chipset, memory and certain key components, the Group does not anticipate to experience unforeseen market fluctuations such as significant material cost increase or supply delay should the Group decide so to engage with a new supply source. Its capacity in practicing best in class material pricing in the industry clearly displays procurement proficiency and commercial strength of the Group, it is considered as core competence built upon benefits leveraged through scale of its operations, bulk volume in purchase, and continuous close participation and networking with the market. One of the top five suppliers in spend to the Group is Hon Hai Technology Group. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. Purchases attributable to the Hon Hai Technology Group accounted for approximately 9.9% of the Group's total purchases in the current period.

U.S.-China tension, COVID-19 and geo-political uncertainties have been and remain to be the underlying market forces for volatilities and breakdowns that many of us and rest of the world have been experiencing in this industry. The more recent Russia-Ukraine conflict simply pushed challenges further up to a new level. New and more uncertainties can only instigate new corresponding adjustment cycles or further extend existing ones. Disruptions will be fixed one by one after each corresponding adjustment is completed. When the year began, semiconductor was at top of supply challenge list. Chipset and ICs made from certain technology process nodes were under super long order lead time and tight in supply since supply was far short of demand at the time. Material supply started to improved further in 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. Pricing increase pressure in certain commodities dissipated and in some began to move lower. Coincidently, leading OEMs in the business started to lower smart phone shipment forecasts for the year right after Chinese New Year holidays. Market was earnestly anticipating better supply and less constraint in later quarters. However, inflation concern and the coming credit crunch to be instigated by major economies to contain it, energy supply disruption in Europe, tight supply in certain basic material and major crops resulted from Russia-Ukraine conflict were clearly volatilities then that could potentially deny such expectation. And now, as the shortage is easing, OEMs are starting to focus on improving their distribution channels and garnering customer loyalty. They must sustain their supply chain and capacity allocations or they could most likely find themselves facing more shortages once customer 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 usually starts from third week entering into a new quarter and lasts till 2 weeks before quarter ends, i.e. when experiencing supply instability/disruption, by supply visibility, they will basically be dealt with one quarter or longer before they may actually occur later in time; in some cases, in extreme situation, unforeseen disruptions may come up at very short notice, and those shall be resolved with intense senior management level escalation and follow-up review with the suppliers or through near term allocation adjustment. Planning and maintaining visibility are the basics in securing supply. Near term forecast is continually offered to suppliers on weekly basis, longer term numbers are shared through sourcing team. Planning and visibility are built on top of demand forecasting confirmation received from suppliers. Communication and negotiation taking place in each quarter are tools in determining pricing and supply in future quarters, bargain/trade-off is being made well before actual delivery confirm is given. Preferential supply strategy, in TQSCE, is always the guide in decision making. Supply continues to be top business risk in last 12 months' time. Even dynamics started to shift in the second half of 2022, high level tactics taken included, (1) leverage preferential sources, balance demand/supply; (2) explore additional options in commodities where supply remains in constraint; (3) drive reasonable market pricing by commodity; (4) follow order lead time, maintain sufficient order coverage; and (5) seek supply from open market when necessary.

During second half 2022, semiconductor improved in supply except certain ICs made from certain technology nodes, pricing did move lower in most commodities on very low demand during smart phone peak seasons; inflation, monetary policy change in major economies, Russia-Ukraine conflict and continuing lockdown and later instantaneous open-up in China were few apparent highlights along the way. As always, material availability in a full square kit is fundamentally essential in manufacturing, for which functionality or dollar value of the component will make no difference to production operation. If a product can be manufactured into one and shipped in time is all that matters. No doubt, keeping a demand supply balance with agility will be critically important to our success.

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 potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has worked out and followed its business plan with goal to expand customer base and its supply mix, effective systems in internal control and enterprise risk management are implemented and maintained to assess and contain such 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 cope with continuing component supply challenge, inflation risk and COVID-19 complication and to minimise impact on operations, the Group continually examines material supply and market price trends and maintains close association and communication with customers, suppliers and logistic service companies through flexible and efficient procurement and sales strategies.

***Key Relationships with Employees***

Employees are valuable assets to the Group. Therefore, the long-term strategy of the Group is to cultivate and develop employees internally and to recruit outside professionals and build up the competencies. Product development and manufacture are both complicated process and require professionals and experts. Therefore, the Group pays attention to keep enhancing the quality and quantity of staff force in order to secure its leadership and competency. The Group has been working diligently in different countries to attract and retain talents. As to talent development, the Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified and brilliant employees by offering more equal employment opportunities, competitive compensation and benefits, more favourable working environment, broader customer reach, bigger scale in resources, training and job rotation and enrichment and diversification, coupled with better career prospect across various products and programs and business lines and promotion opportunities. The Group places great emphasis on career planning and talent development for employees in different countries by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency and technical development to enhance employees' capabilities, while external training programs include hands-on courses and workshops and seminars or conferences organised by external parties that provide excellent training and professional development opportunities for employees that bring theory and practice together to improve the competency of the Group. Furthermore, 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 on their thoughts. Currently, the communication between the Group and employees is well conducted and employees can fully express their opinions, raising any labour issues to promote and maintain a positive labour relationship. Pursuing sustainable corporate development and embracing integrity is our highest guiding principle, and the Company has established relevant business ethic guidelines. Based on the guidelines, employees are required to follow the moral and ethical standards and advocate integrity, honesty and confidentiality to protect the rights and interests of the Company and its shareholders as a whole and enhance the Company's competitiveness and long-term sustainability. 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 guidelines 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 is being recognized as one of the best working environment through labour market (to receive Award as "Corporate Excellence" category of the Asia Pacific Enterprise Awards (APEA) 2022) and our own employees. We care for our employees with 5 main core values such as people, integrity, efficiency, innovation and winning by creating a good working atmosphere that people are respecting each other and to be recognized and trusted in their job assignment. They have a chance to make creativeness in their job and innovation to reduce the cost and increase work efficiency and better quality result and also create equal chance for everyone. Company provides clear procedure and proceeds to implement promotion program to show our integrity in people development management and also with philosophy win-win relationship as one team, one goal and customer-oriented. Besides, Company is always

showing our caring to employees working life through benefit in kinds such as premium insurance to take care individual and their own family; team building program to be organized twice per year to help employee to refresh their mind after working time dedicated to their work and encourage our employees through Fushan YouTube Program and Year End 2022 Employee Art Performance Program to enrich our employee's mental life. Not only caring for local labors, Fushan also shows our appreciation to foreign expats. The Diwali festival in October 2022 gathered a large number of participants with many joyful moments.

The learning agility culture is constantly enhanced with trainings for line leaders and team leaders (in total achieved at 98% coverage). New managers are supported to get to know the working culture in Fushan via manager role course. Self-training culture is still considered a highlight at Fushan, with 32 courses of trainers being conducted with thousands of participants. Another new program launched in the second half of 2022 is Fresher program with 8 trainees. The first batch reached 88% of Freshers passing the probation period. This aims to create a talent pool pipeline for the factory. Another season is on the way. The bi-weekly "Skip Level Coffee" remains effective in listening to employees' concerns and difficulties in their daily work. 94% of 159 issues raised have been closed. The employee listening is also well deployed in the shop floor tour (twice a week). The internal newsletter is another channel for Company to share business updates and CSC activities, employees to reflect on their achievements, thoughts and experience. Moreover, Fushan internal activities focus more on video production, with multiple programs running at the same time, such as MIS in Video, Chinese for office work series, and more.

Amidst the Covid-19 crisis, employee health and well-being has been the primary focus by a daily record of health survey check in accordance with public health guidance whilst arrived at 100% where all employees are vaccinated for booster dose with government support, this underscores our commitment to their careers and well-being. India sites continues to mandate its new employees to submit vaccination certificates during the time of joining. The site continues to do regular inspections/audits by EHS team and created onboard experiential learning episodes on personnel safety management. There is an increase in rural women workers participation rates to meet diversified workforce model without zero advertisement and stabilized staff hiring for core operation roles despite extreme competition i.e., 75% of junior plus 25% of middle level positions through cost-effective sourcing channels. We are 100% compliant with internal processes and statutory requirements to meet boarding accuracy at the bandwidth of 75% local and 25% non-local.

BFIH is known for employee relations, equitable treatment of employees, zero accident workplace and foster brand loyalty as our team expands. Employee relations is connected with the women and staff at all times, understand, appreciate & resolve the grievances on time (97% of the grievances resolved within 4 days of turn around time, TAT) to ensure business continuity & delivery excellence. India sites ensures that all applicable labour laws and factory laws are strictly followed, and Human Resources and Employee Relations practices have been able to maintain harmonious Industrial Relations. People cultural programs are planned over the calendar year in a systematic manner to ensure all major local and National festivals/events are celebrated on the sites. These celebrations span for over 6,000 to 7,000 employees during the year to encourage creative pursuits that help in nurturing in house talent. Employees get an opportunity to exhibit their talents during various occasions like Diwali, Talent competitions, Independence Day, Christmas, Sankranti, Pongal, Fashion show, Rangoli

Painting competition, Fun activities, birthdays, outing on Week off/Holidays, recreation tours, and yoga classes. Counsellors are available to guide women on individual personal issues and problems and regular doctor visits are organized to the dorms monthly. Our dorms give the women employees a safe and secure place far away from the comfort of their homes. Small structured social events (karaoke nights, sport events- marathon participations) organised at the dorms too at regular intervals to give the employees a sense of belonging and ensures that they are part of a family at BFIH "A Home Away From Home". India is experiencing seismic, global shifts in the world of work. Talent retention has been the top agenda across Industries and so with us at BFIH. At the training front we reinforced various line refresher sessions for assemble line operators to reduce process deviations, re-skilled technicians, engineers on interpersonal abilities conducted by 100% internal trainers talent pool. We also observed 30% increased participation rate on outsourced programs in Emerging Women Managers and Key talent Managers Leadership programs. BFIH has been instrumental in assisting 54 employees graduate as qualified engineers from top technical universities in Tamil Nadu.

India site ensures 100% compliance towards internal and external compliance audit and adheres to customer portfolio training requirements i.e., Values, Anti-corruption and POSH (Principles of Occupational Safety and Health). India site also gives lot of importance to Corporate Social Responsibility (CSR) by carrying out various community welfare initiatives where over 2,000 families benefited in our core intervention and more in future and over 10,000 patients per month in 8 Public Health Care.

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 year, in view of the Group's changes in product portfolio and excess capacity, we have undertaken initiatives to restructure our business operations with the intention of diversification, improving utilisation and realising cost savings and remaining as an asset-light and lean group. These initiatives included the restructuring the underperforming parts of its manufacturing operations and disposing idle assets, moving production between facilities, 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 of 31 December 2022, the Group had a total of 44,055 (31 December 2021: 73,993) employees. Total staff costs incurred during the current period amounted to US$371 million (full-year 2021: US$444 million), and the year-on-year decrease was mainly due to the optimisation and rightsizing of staff force according to business needs.

The Group offers a comprehensive and competitive remuneration policy which is reviewed by the management on a regular basis. In general, the Group's merit-based remuneration policy rewards its employees for good performance, contributions and productivity. The Group treats all employees equally and fairly, and evaluates employee performance (including determining promotions and wage increments) objectively based on merit, ability, and competence. To encourage employee retention, the Group has implemented annual bonuses, time-based/ performance-based incentives and other incentive programs. Employee retention is always a big challenge for all corporations. In a highly competitive global economy and as product development and manufacture are both complicated processes and require professionals and experts, retaining qualified and skilled key employees is essential for the sustainable competitive advantage. Offering competitive compensation and benefits, favourable working environment, broader customer reach, bigger scale in resources, training and job rotation coupling with better career prospect across various products and programs and business lines are undertaken as actions for the Group to increase the employee loyalty 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 of directors of the Company (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 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 Directors' Remuneration Policy of the Company as amended from time to time 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 history, backgrounds, company goals, DNA, business and growth strategies, organisation culture, leadership, shareholder structure, business models (like outsourcing or insourcing or co-sourcing or nearshoring) and life cycle, client profile and base and mix, revenue and product mix (casing versus system assembly and other non-handset businesses), specific operating processes, product and service strategy and differentiation and positioning and diversification, risk appetite, business segments, pricing strategy and policy, geographical

footprint, government support, tax incentives entitlement, competitive edges, core competencies, R&D capabilities, asset utilisation, cash flow and position, dividend policy, capital structure, cost structure, it may be difficult to make direct comparisons at consolidated group account level.

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 and procurement management, efficiency optimisation, risk management, operation management, inventory control, productivity, quality control, yield control, direct cost control, manufacturing overheads control or a change in the pricing policies and activity level and overall cost competitiveness and market landscape.

Net profit and net profit margin are the financial KPIs measuring earnings/losses resulting from subtracting operating expenses and other gains and losses (such as equity investments fair value change) and tax and interest costs from gross profit earned and shows the residual of all revenues and gains over all expenses and losses for the period. This KPI measures how well a company does at turning revenue into profits and is often regarded as the ultimate metric of profitability — the "bottom line" — because it's the profit remaining after deducting all operating and non-operating costs, including taxes and indicates how much of each dollar earned by the company translates into profits which results in net change in shareholders' equity that results from a Company's operations. It measures the ability to control operating expenses, optimise tax and capital structure and interest costs, minimise other kinds of non-operating gains and losses (such as foreign exchange gains and losses and equity investments fair value change). These reflect on the profitability of a business and show how fast the company can grow in the long-term prospect.

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

***Sales***

In 2022, the Group recognised a consolidated revenue of US$9,394 million, representing an increase of US$812 million or 9.5%, when compared to US$8,583 million for the same period last year. In contrast to 2021's pent-up demand, consumers' disposable income was affected by an economic downturn and soaring inflation in 2022. In the first half of 2022, the lockdowns in several major China cities and poor sentiment caused by the COVID-19 outbreak and shutdowns and slower economic momentum and the lack of product upgrades exacerbated an already difficult situation. In the second half of 2022, as capacity and production was ramped up, situation changed and supply chain constraints pulling down on the market since 2021 eased and were no longer the most pressing issue as component orders were cut quickly and suppliers started to be concerned about oversupply and inventory accumulation and the industry shifted to a demand-constrained market and end customers became even more price sensitive. Because of the drop in demand, many handset brands faced inventory accumulation challenges and struggled to clear inventory since the third quarter of 2022. The economic downturn and inventory adjustments spurred rapid freeze and urgent order halts of components. In 2022, sales to one of the Group's major customers in both America and Europe segments exhibited strong growth. But according to the reports published by IDC (International Data Corporation) on 25 January 2023, 29 January 2023 and 10 February 2023 and CAICT (China Academy of Information and Communications Technology) on 17 February 2023: (a) global smartphone shipments in 2022 showed a lowest total shipment since 2013 with a decline of 11.3% year-on-year, adversely impacted by the challenging macroeconomic environment; (b) China, the world's largest mobile phone market, showed a 13.2% year-on-year decline in smartphone shipments to a decade low in 2022; and (c) India showed a 10% decline in smartphone shipments, year-on-year in 2022, the lowest since 2019. Asia was the largest geographical segment of the Group. As the majority of the decline came from the Group's two main regional markets of Mainland China and India of Asia segment, which some of the Group's customers were heavily focusing on and at the same time contributing to a significant portion of the Group's total revenue, the slow demand in those geographies had a significant negative impact on the Group's 2022 performance and had well continued into in 2023, and it should take some time to return to pre-pandemic level. Hope that the general economy of China and people' consumption can be improved gradually in 2023 after the relaxation of zero-COVID controls in December 2022. In some other countries, demand for smartphones also faded amid households' fears about reduced income and spending power, rising inflation and other monetary pressures, and the Group kept monitoring market situation closely.

Demand for smartphones in 2022 was lower than expected and the global handset market continued to be affected by various headwinds, including slowdown of the general economy, prolonged geopolitical uncertainty, Russia's invasion of Ukraine and upped cost of living and roaring inflation across all countries together with quantitative tightening policy which pushed up the risk of worldwide economic recession, the COVID-19 lockdowns in China, uneven economic recoveries related to the COVID-19 pandemic, handset market saturation, strong USD, high interest rates, supply chain instability and material price volatility in the first half of 2022, and sluggish consumer demand. Compounding the difficulties for the global smartphone market was the fact that global shipments had faced down trending since 2016 due

to market saturation and existence of surplus capacity in certain markets. The availability of excess/surplus manufacturing capacity at many of our competitors created utilisation problem and intense competitive and pricing and margin erosion pressure on the EMS industry as a whole. Low- and middle-income groups were materially impacted by inflation and many reduced non-essential spending. In the first half of 2022, there was a mismatch between demand and supply, and China's city lockdowns to combat the coronavirus spread cooled consumer sentiment significantly and disrupted the supply chain and stores were closed. The pandemic-related lockdown in parts of China that continued into the second quarter diminished demand. Consumer demand for smartphones, especially of the premium segment, witnessed a decline due to the inclination of customers to cut down on non-essential spending and focus on essentials due to the pandemic. For customers in other countries, under the harsh economic situation and fears of an economic slowdown and cost of living crisis, customer preference were changed to saving more money to support the growing living cost; in other words, the decline in demand in durable goods including handset in 2022 was the most impactful reason to worsen the Group's customers' business performance. Consumers might be affected differently by the potential economic turbulence in 2023. Depending on factors such as disposable income levels, some would postpone or curtail discretionary purchases. Statistics showed that there was a continuing decline in handset shipments as above mentioned reports from various research houses.

With the diffusion of innovation and technology, the smartphone industry had already been commoditised. Commoditisation occurs when product or service products become indistinguishable from each other. This is because there are so many competitors in the market that all the products are pretty much the same. Commoditisation of technology is very common as technology products tend to become commoditised very quickly. When the first smartphone was released, it was a very differentiated product. But now, with the proliferation of smartphones, there are so many different types of smartphones on the market that they have all become commoditised and commoditisation can make it difficult for companies to differentiate their products or services from those of their competitors, and this can lead to lower prices and margins. Hence, commoditisation often leads to price wars. On the positive side, commoditised products are often more affordable and accessible to consumers. On the negative side, commoditisation can lead to lower profits for companies selling commoditised products, as margins are squeezed by competition. Highly homogenous products have increased the competition in the market as it became more fragmented and as the modular structure of the industry lowered the barriers for new entrants to enter the market and offer products with high specifications for an affordable price to consumers.

From the handset industry perspective, the Group faces vigorous competition from the manufacturing operations of our current and potential customers, who are continually evaluating the merits of manufacturing products internally against the advantages of outsourcing. The Group competes with different competitors depending on the type of product and service we are providing or the geographic area in which our operations are located. Our competitiveness is superior quality, cost competitiveness, rapid scale production and accelerated production time-to-volume and time-to-market, ODM capability, lean manufacturing and higher efficiencies and global footprint. The impact of Ukraine warfare on our customers is not large so far but the Group has to continue to monitor the impact of high

inflationary rates and interest rate hikes on end customers and handset markets and our customers. The unsatisfactory year-on-year increase shows that the sales recovery of the Group has been constrained by above limiting factors. Sales to one of the Group's original major Chinese customers, which was hit by U.S. sanctions, continued to drop dramatically in 2022 as U.S. sanctions choked its supply chain. But the increased order gain from another major customer more than offset the impacts during the current period. As the Group has high concentration of limited customers, there is a need to devote resources to the building up of business development capability and develop more new customers and penetrate other geographical market segment and expand ODM businesses and manufacture other types of products which have ample growth opportunities. The Group keeps seeking other business opportunities both in China and India and other locations like the States and monitoring the market situation and intensifying competition in an effort to improve our performance and maintain our position and competitiveness and long term sustainability in the industry in different countries.

Outbreaks of COVID-19 and the factory shutdowns and demand sluggishness greatly reduced room for improving asset utilisation and capacity optimisation and unabsorbed overheads became higher and there was a need to optimise workforce utilisation. The crisis accentuated the reliance of businesses around the world on a few markets for fulfilling their manufacturing and sourcing requirements. Persisting "zero-COVID" policy of China accelerated the global supply chain reconfiguration of the Chinese-centric global supply chain and finding of new suppliers and routes that allow diversification in times of crisis. Foreign companies re-assessed or adjusted their strategies for China. "China Plus One" and nearshoring policies of some customers gave the Group more opportunities in these overseas countries.

In general, the Group strived to invest in R&D and improve efficiency and maintain a good and stable yield by enhancing production automation, asset utilisation and capacity, quality assurance and quality control, and tighter control on manufacturing overheads and capital expenditure. The Group's automation engineering team continued to increase automation coverage across different manufacturing processes to diminish the impact of rising labour costs and enhance efficiency. The Group's dedicated and professional procurement team were leveraged to sourcing materials with competitive prices but they faced a lot of difficulties due to supply disruptions and supply instability in first half of 2022. Furthermore, there was continuous strong support from the Hon Hai Technology Group to offer in scale, component support and stable supply of key components and a vertically integrated supply chain that allows for production synergies. The Group can leverage on the Hon Hai Technology Group's resources, giving the Group more flexibility in outsourcing capacity.

***Profit and Loss account***

The Group recognised a consolidated revenue was US$9,394 million, representing an increase of US$812 million or 9.5%, when compared to US$8,583 million for the same period last year. Net loss for the current period was US$72.1 million, when compared to a net gain of US$56.4 million for the same period last year. In light of the factors mentioned above, net loss attributable to owners of the Company for the current period was US$72.1 million, as compared to net gain attributable to the owners of the Company of US$56.3 million for the corresponding period last year. Gross profit margin for the current period was 2.04%,

compared to 2.61% for the same period last year. Despite of year-on-year increase in sales of the Group, gross profit margin worsened as handset demand was sluggish and gross margin of system assembly business was really very low and the casing factories had been facing strictest competition as the production process was mature and adopted by competitors, resulting in the shrinking profit margin and erosion pressure was extremely high and these became an industry norm. Global economy slowdown affected the recovery path of the Group seriously and asset utilisation remained low and unabsorbed overheads were large in amount. In the first half of 2022, some of our PRC operations were affected by city lockdowns and "closed-loop" management, but the management succeeded to minimise the impacts of interruptions. But in November 2022, the Group's manufacturing activities in Northern China were adversely affected, after local authorities imposed strictest lockdowns and restrictions relating to COVID-19 outbreaks in various provinces in Mainland China. Subsequently, on 7 December 2022, the Chinese Government lifted its strictest dynamic zero-COVID approach, following which COVID-19 infections across Mainland China soared. These disruptions and interruptions adversely affected the Group's, and its customers' and suppliers' respective operations and performance.

In view of the Group's changes in product portfolio and excess capacity, in 2020, the Group refined its approach and took necessary steps to become an asset-light corporate group and impaired and/or wrote off various under-utilised/obsolete assets of US$42.7 million and the restructuring continued into 2021 as it took time to carry out the downsizing and restructuring works, Thanks to the rightsizing/restructuring carried out in 2020 and 2021, the Group becomes leaner and the company-wide cost trimming initiative and headcount cut resulted in annual savings in expenses which helped reduce costs and overheads in the long run. Despite of the Group's continuous effort to dispose of under-utilised/obsolete/depreciated assets, in 2022, with the outbreak of Ukraine war and slow down of global economy which weakened handset demand, capacity and asset utilisation of the Group continued to be bad and disappointing and the idle costs were still high. People were also heavy burdens on the Group and the Group had to continue to downsize or shut down loss-making/underperforming operations and carry out restructuring activities and pay severance payments upon optimisation of staff force and prioritise spending related to future business. 2022 related losses, costs and/or expenses were US$13.0 million, as compared to US$30.8 million in 2021, representing the net difference among: (a) gains of US$6.2 million being that portion of the compensation recorded by the Group in 2022 in relation to the resumption of properties disclosed in the Company's discloseable transaction announcement dated 2 November 2022; (b) losses of US$2.2 million for 2022 (versus losses of US$19.1 million for 2021) from the impairment, disposal and/or write-off of the Group's under-utilised/obsolete/depreciated assets; and (c) costs and expenses of US$17.0 million for 2022 (versus US$11.7 million for 2021) arising from the severance payments upon optimisation of staff force. Severance payments were booked as G&A expense while gains or losses arising on disposal/write-off of fixed assets were booked under Other Income. Such asset disposition and restructuring continued into 2023 and relevant costs/losses can be large in amount.

Other income, gains and losses for the current period were US$133 million, representing a decrease of US$34 million from that for the same period last year. The decrease was due to a decrease in mold modification income and scrap sales by US$38 million as order from related customers decreased and the absence of a 2021 gain from deemed disposal of US$35 million related to formation of Mobile Drive. Such a decrease was partially offset by the increase in

service income by US$14.9 million, foreign exchange gain of US$10.8 million and gain on disposal and write-off of property, plant and equipment and investment properties by US$15 million. Service income for the current period was US$25.3 million (2021: US$10.4 million) was mainly due to increase in the product development service provided to customers. In addition, the group has experienced foreign exchange gain of US$13.2 million for the current period compared to US$2.4 million gain in the same period of 2021, due to its holding of USD assets and the appreciation of USD during the period. The USD strengthened as the U.S. Federal Reserve raised interest rates to combat inflation. The Group will continue to maintain its consistent hedging strategy to minimise foreign exchange exposure caused by exchange rate volatility. Gain on disposal and write-off of property, plant and equipment and investment properties for the current period was US$7.7 million (2021: US$7.3 million loss), mainly due to portion of compensation in relation to resumption of properties in Hangzhou site of US$6.2 million, contributed US$15 million improvement in other income, gains and losses.

The Group took aggressive steps to reduce expenses and headcount to better align with the future needs of the business. Regarding operating expenses, for the current period was US$263 million, compared to US$294 million for the same period last year. For selling expenses, the decrease of US$5 million was due to more stable global supply chain and logistics costs in the second half of the year. For R&D expenses, the decrease of US$32 million was due to a 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 were reduced. For general and administrative ("G&A") expenses, the increase of US$6 million was due to more severance payment associated with rightsizing/restructuring activities in 2022 and 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, partially offset with the decrease in payroll costs after the optimization and rightsizing of G&A staff force. The Group will continue to focus on prioritising spending related to future business and avoiding cost overruns.

In addition, as explained, market continued to be extremely tough and global economic and political uncertainties, market volatility, and reduction in end market demand have seriously affected the business and cash position of some of the Company's customer and collectively increased the credit risk and there is need for the Group to make adequate expected credit loss allowances in the book to reflect the potential collection risks of these customers. Regarding interest expenses, a significant increase in U.S. interest rates in 2022 resulted in a dramatic increase in interest expenses and also lower net interest income for the Group. In the beginning of 2022, the interest rate was 0%~0.25% but U.S. Federal Reserve has increased the interest rate to 4%~4.25% at the end of the year. The Group's 2022 net interest income was reduced to US$14.5 million (2021: US$26.7 million). There were also year-on-year increase in the share of loss of loss-making associates and a joint venture. These unfavorable impacts were partly offset by the increase in foreign exchange gain of US$10.8 million (2021: US$2.4 million), and the decrease in R&D expenses and abovementioned gain of US$6.2 million in relation to the resumption of properties.

Pursuant to IFRS 9, the Group performs impairment assessment on trade receivables under expected credit loss ("ECL") model. For customer with increasing credit risk, the Management had appointed an independent valuer to assist in the estimation of the ECL provision of the trade receivable due from such customer by determining an appropriate probability of default rate, forward looking adjustments and estimated loss given default rate. Based on the assessment, an ECL provision of US$80.5 million was made on such trade receivables. The Group uses a provision matrix to calculate expected credit loss allowances for trade receivables which are not credit-impaired or with increasing credit risk. The provision matrix is based on debtor's aging of groups of various debtors that have similar loss patterns. The provision rate is based on the Group's historical observed default rates taking into consideration of forward-looking information that is reasonable and supportable and available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In light of the high uncertainties of the global economy and handset market and heightened geo-political tension, the Group reassessed the expected credit loss allowances by increasing the expected credit loss percentage for overdue trade receivables during the current year. During the current year, the Group provided net impairment allowance of US$3.1 million (2021: US$1.7 million) based on the provision matrix.

Despite most of the world's major economies having re-opened, there are still many other challenges and it needs time for the Group to turn around and the recovery path can be long and tough. We will continue to experience adverse impacts to our businesses as a result of its global economic impact and geo-political tension, including any possible recession and stagflation, as well as lasting impacts on our suppliers, third-party service providers and/or customers and their behaviors. With the uplifting of China's zero-COVID measures, we will monitor if China' economy can recover in a quick manner. In other words, utilisation will continue to be a burden and can only be improved gradually when the market picks up momentum. As demand is weak and the market is growingly saturated and macro-economics and geo-political landscape are tough and dynamic and volatile, a lot of uncertainties will continue to affect our performance and our current/past operating results and earnings may not be indicative of our future operating results and earnings and risk profile and quarterly performances. It is also too complex for longer term forecast to last and hold, the Group remains vigilant to the challenges which will unfold over time and will be prepared and reacts to the best of its capacity and makes business decision of terminating loss making operations and reducing headcount in a decisive manner.

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

(i) In 2022, demand in China, the largest handset market, was muted and red-hot demand for smartphones and personal computers spurred by homebound consumers during the pandemic lost steam, with China seeing a particularly pronounced slowdown and reported an overall year-over-year decline of shipments for 2022 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 was reflected in reduced end-consumer appetite and reassessments of Chinese brands and prolonged demand visibility. Success of the Group is tied together with success of the products of our customers, which usually operate in saturated markets with severe competition. Market developments experienced

by our customers and their products may from time to time affect the Group's business. Replacement demand slowed on a lack of product differentiation and upgrades and significant new developments/innovations in the phone market. Even if there were new models, consumers held off upgrading to newer models. Coupled with weakened consumer sentiment caused by the deteriorated global economy and high inflation and Chinese government's dynamic zero-COVID policy which weighed on consumption, the reduction of demand was the main drivers for the year-on-year decline and affected the rapid recovery of customers and the Group's Asia segment performance. In the first half of 2022, 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. The drop started right after 2022 Chinese New Year holidays and never recovered and demand in third and fourth quarters didn't pick up, consumer electronics moved on without a peak season in 2022 and drop in China was much more than overseas market. There was also need to digest excessive inventories filling retail channels. This grim outlook posed 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 became weak and uncertain and volatile, our customers adjusted their outsourcing strategy and were more cautious in their demand planning and product launch plan and budgetary control and demand visibility was greatly shortened and this bollixed the Group's production planning which made it difficult for the Group to schedule production in an efficient manner and optimise utilisation of our manufacturing capacity and workforce, and to estimate order book with reasonable certainty. This partly explained why unabsorbed overheads were high. In addition, as the end market was highly competitive, whether our customers could maintain pricing power and whether new products of our customers could sell well affect the re-orders to be placed by our customers, and the customers might cut initial order quantity if their new products could not sell well.

These factors led to a decline in the Groups' sales to some Chinese customers and affected the results and margin performance of the Asia segment in 2022 and had well continued into 2023 and this implies that it will take some time to return to pre-pandemic levels and turn around. Weakened demand of India market also affected sales and contribution margin. There is a need for the Group to increase sales and shipments as low asset utilisation resulted in idle costs and assets, and unabsorbed overheads and the risk of the need to book additional asset impairment loss increased. There was a need to dispose of under-performing assets and cut headcounts in 2022 in order to remain asset-light and lean and reduce loss amounts, and these have continued into 2023.

(ii) In the first half of 2022, there were COVID-19 outbreaks in some places in China which the Group had operations and the Group's sites were affected by the COVID-19 pandemic and unexpected Mainland China lockdowns. Many countries, including India and Vietnam, which the Group had operation, adopted a "living with the virus" policy, so there were fewer large-scale lockdowns, quarantine measures and other public health restrictions. Accordingly, manufacturing activities progressively resumed in our India and Vietnam operations and their abilities to continue to manufacture products was highly dependent on the ability to maintain the safety and health of 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 put 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 were subject to frequent change and governmental authorities conducted audits on compliance works of companies. We implemented infection control measures recommended or required by local public health authorities. It was important to utilise our workforce in an efficient manner so as to save the cost of providing our services.

In November 2022, there was a COVID-19 outbreak in the Group's China manufacturing site in Northern China and this site faced severe situation due to stringent lockdown measures imposed by the local government and production was halted in November. On 7 December 2022, Chinese government decided to relax many of its stringent zero-COVID controls to boost up the economy; however, it was far from a quick return to a pre-pandemic situation as COVID-19 infections swept across the country. For our overseas sites in India and Vietnam, their operations recovered quickly after the re-opening of these two countries in the first half of 2022.

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 affected our customers and suppliers and service providers and different parts of our operations and utilisation and efficiency and yield and labour availability and the different facets of supply chain and material availability and pricing and value chain and order fulfilment and shipments. Customers became more cautious when placing orders and such losses were not measurable. The impact of component supply was more severe when customers' demands fluctuated significantly. Meeting such demand was dependent on supply continuity and optimal inventory carry. Future impacts of the COVID-19 on the Group's business and its duration and severity will depend on the development of COVID-19 after the uplifting of zero-COVID measures. 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 faced since late 2017 continued into 2022 and there was continued pressure on the Group's gross margins generally and this was 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 was constrained. The low entry barrier and availability of excess manufacturing capacity at many of our competitors and the Group created intense pricing and competitive pressure on the EMS industry as a whole and China peers were particularly cost competitive and a majority of the market participants faced challenges with respect to the operating margin. Gross margin of system assembly business was really very low and the casing factories had been facing strictest competition as the production process was mature and adopted by competitors, resulting in the shrinking profit margin and erosion pressure was extremely high and these became an

industry norm. In the competitive EMS industry, profit margins were relatively low as component prices were on average and key focus lay on the labour costs and capacity utilisation and yield and cost control. As market volatility and uncertainties increased dramatically and handset replacement cycle lengthened and demand dropped significantly, all these unfavourable factors intensified the competition of the global handset market and our customers were more cautious in their product roadmap and procurement planning, inventory control, cash flow management and demand forward visibility was greatly shortened. As the margins of the customers were reduced, they were prone to cut the prices of the handsets we sold to them and margin erosion pressure on us was extremely high. At the same time, the Group had been aggressive in getting more orders in order to optimise utilisation. Before the first half of 2022, China experienced a 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 was a challenge. The aspiration level of Chinese workers increased and they focused on high-tech jobs, leaving gaps in the low end of manufacturing value chain. This led to scarcity of labour and higher cost due to lack of availability of the manpower which was further aggravated by lockdowns. With the gradual slowdown of China's economy in the second half of 2022, labour shortage problem eased. Our workforce utilisation rate was 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 was 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 prompted manufacturers to move out of China. The Group had been putting effort on continuous development and penetration of the Chinese and international brand customers, expanding production capacity in India and Vietnam and R&D and ODM capability in India and increasing local sourcing in India. The markets with fastest-growing demand were mostly developing countries such as India and Africa where the average income level was low and people tended to purchase much affordable mobile phones, which were low-end and mid-end models with lower margins. In particular, strong USD affected the purchasing power of the people and they became more price-sensitive and curtailed non-essential and discretionary spending and kept more cash. In order to meet the shift in consumer market and customers' demands, the Group accepted more low-end devices manufacturing orders which contributed to profit erosion too. Feature phone sales to HMD faced downside pressure as high inflationary rates have affected HMD sales of low end feature phones in African continent and India. We also capped the account receivable amount to control risks.

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

management, business control management, quality management, order fulfillment and inventory management are critical to ensure cost efficient operations on a global basis.

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 decline in market demand and change of consumer-buying behaviour resulting from COVID-19 and slowdown of economy and Ukraine warfare and high inflation and strong USD and interest rate hikes, the Group has continued to focus on proactive measures to minimise interruptions of COVID-19 upon China's easing of zero-COVID containment measures, 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 build up business development capability, and with suppliers to secure stable supply of materials and components. Support of local government is of equal importance. It is the Group's business strategy to become more asset-light and lean, and accordingly, the Group has continued its exercise of downsizing/restructuring of the underperforming/loss-making parts of its manufacturing operations, headcount reduction and has generally suspended capital expenditure on non-critical investments and/or capital assets and has also got rid of its obsolete, depreciated and under-utilised assets. The Company will continue to closely monitor the situation and asset utilisation, and where it considers necessary, will implement further appropriate measures like carrying out further rightsizing and restructuring activities which can improve utilisation and realise cost savings. The Company has been working hard and doing everything that it reasonably can to improve its performance through these long-lasting challenging times. The Company will keep matters under close review as 2023 progresses.

Income tax expenses during the current period were US$12.5 million compared to income tax expenses of US$13.7 million for the same period last year. Income tax expenses were incurred in certain profitable PRC and India entities during the current period. A PRC entity was profitable during the current period due to receipt of government subsidy whilst a few PRC entities, India and Vietnam entities made some small profit during the current period.

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 4% negative, when compared with the ROE for the same period last year of 2.6%. The ROE declined as a result of loss making.

Basic loss per share for the current period was US0.91 cent.

*Dividends*

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

On 22 December 2021, the Company announced that the Company proposed to spin-off and separately list the equity shares of BFIH, its Indian subsidiary which is the largest Electronics Manufacturing Services provider in India, on BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE"), which are the two main stock exchanges in India. In that announcement, the Company also announced that the Stock Exchange had confirmed that the Company might proceed with the Proposed Spin-off pursuant to Practice Note 15 of the Listing Rules and that BFIH had filed its draft red herring prospectus in relation to the Proposed Spin-off with the SEBI, BSE and NSE. To give due regard to the interests of the shareholders of the Company by allowing them to directly benefit from the Proposed Spin-off (and taking into account that the Company would not be able to provide the Shareholders with an assured entitlement to the equity shares of BFIH pursuant to the Proposed Spin-off due to the legal restrictions and practical difficulties involved) and subject to the Proposed Spin-off being completed, the Company proposed to pay a special cash dividend to the shareholders of the Company of an aggregate amount which will not be less than 40% of the net proceeds to be received by the Company from the sale of existing equity shares in BFIH pursuant to the Proposed Spin-off. As noted in the Company's announcement dated 20 October 2022, in view of the market conditions, the Company has decided to delay the timetable for the Proposed Spin-off and the Company intends to continue to pursue the Proposed Spin-off when market conditions improve. Accordingly, if the Proposed Spin-off proceeds, details of the special cash dividend, including the amount and timing of payment, will be announced by the Company in due course.

***Geographical Segments (please refer to note 2 of "Revenue and Segment Information" to the consolidated financial statements)***

The Group determines operating segments based on reports reviewed by management for the purpose of allocating resources to the segment and to assess its performance. Segment profit (loss) represents the gross profit earned (loss incurred) by each segment and the service income and certain gains and losses (included in other income, gains and losses) after deducting all selling expenses and impairment loss under expected credit loss model, net of reversal. The Group's operations are organized into three operating segments based on the location of customers and segment profit (loss) represents the gross profit earned (loss

incurred) by each segment and the service income and certain gains and losses (included in other income, gains and losses) after deducting all selling expenses and impairment loss under expected credit loss model, net of reversal. 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 geography and be technologically advanced and continually monitor the market competition and macro-economic conditions, and development of COVID-19 after uplifting of China's zero-COVID control measures and geo-political tensions and economic slowdown and market demand. On the demand side, many consumers admitted that they no longer had the impulse to change new phones as in the past and had been using their mobile phone for years. The principal reason for not changing mobile phones 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 Strategy Analytics in June 2022 showed that the global smartphone replacement cycle was at its shortest at 28 months in 2013, when operator subsidies also reached the record high level. However, the replacement cycle had been lengthening from 2014 onwards, coupled with de-subsidisation, a lack of major innovations, and increased low-income prepaid smartphone users in emerging markets. COVID-19 hit the global smartphone market and further increased global smartphone replacement cycle to 43 months in 2020, before recovering slightly in 2021 due to easing COVID-19 restrictions and the vaccination rollout across the world. However, that recovery was swiftly halted due to the Russia/Ukraine conflict, and the subsequent rise of energy prices and high inflation. Strategy Analytics expects the global smartphone replacement cycle to start to slowly rebound from 2023 onwards, mainly triggered by economy recovery and 5G migration and it is forecasted that the global smartphone replacement cycle will improve to 41 months by 2027. Smartphone replacement cycle varies widely between countries and regions, and many of them follow different pattern throughout the years.

On supply side, in the first half of 2022, originally most smartphone makers expected 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 was also the reason why we kept some assets to cater for anticipated revival and volume gain in 2022. But the 2022 situation was much worse than expected and the performance of the Group was seriously affected and we had to get rid of redundant assets and reduce headcounts aggressively. The U.S. 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 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 gradually stabilised. In the second half of 2022, supply became gradually normalised. Regarding component and material pricing, price-up momentum began to disperse from the first quarter of 2022, 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 was not expected to move at same pace with market dynamics by following reasons, (1) runaway inflation, hitting a four-decade high and turnaround was 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 started moving downward in the second quarter and went 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 were 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. Regarding the supply of 2G chipsets used to manufacture feature phones. But it was fortunate that 2G chipset supply instability the Group had been experiencing in feature phone since 2021 showed signs of improvement in the first half of 2022. Supply constraints were completely removed in the second half of 2022 as market demand deteriorated. Nonetheless, 2G chipset supply could no longer be expected to be raised back to the level in 2020 or earlier. Chipset vendors were no longer interested in continuing 2G chipsets supply and would continually prioritize production resources to market popular 4G/5G products and next generation chipset. Demand and supply in this product category would be mindfully maintained while a delicate market balance among the last few key players remaining in the sector was expected to be maintained.

Being lean and agile is of critical importance and the Group has to control expenses and overheads and spending and headcounts and capital expenditures and eliminate idle assets and control risks (in particular account receivables and inventory and material/components purchase) and work closely with local government and customers and suppliers and logistics companies seamlessly so as to increase preparedness and the ability and readiness to respond in a quick and proactive manner as external environments and geo-political situation change very fast, with an aim to minimise the 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. Inflation and geopolitical concerns will dominate the agenda for 2023, negatively affecting both consumer demand and brands' operating costs. Consumers are adjusting their behaviors, as many trade down to cheaper items to reduce their spending. The Group has to keep watching global headlines closely in the year ahead, as macroeconomic and political uncertainties will continue to obstruct business operations and the Group needs careful planning to navigate the many uncertainties and recessionary risks that lie ahead in 2023.

From geographical segment perspective, no business was immune from the COVID-19 crisis and economy and phone demand in different geographical segments were influenced by different macro- economic factors and geo-political tensions and COVID-19 policy adopted by local government and it needed time for demand to return to pre-pandemic level. As a result, segment revenue and margin as well as overall earnings, might fluctuate and performance of different segments could vary quite differently. Countries with large numbers of domestic consumers would witness home-grown manufacturers of OEMs and ODMs, mainly driven by initiatives and support of the respective governments like India. As mentioned above, Asia segment faced a lot of difficulties and was hit the most and there 2022 performance deteriorated and there was a year-over-year decline in the weight of sales of Asia segment to the Group's total sales. For U.S. geographical segment, economy is still strong while for Europe market, it is facing huge inflationary pressure and the soaring fuel price and Ukraine warfare has affected its economy. These two geographical segments showed year-over-year growth in performance but need close watching.

*Asia Segment*

The revenue of Asia segment in the current period was US$5,798 million, representing a decrease of US$778 million, or 11.8% when compared to US$6,576 million for the same period last year. Result for the current period was US$108 million, representing a decrease of US$18 million when compared with result for the same period last year, and the decline was due to decrease in shipment resulted from poor demand. Major Asia segment of the Group are China and India. According to IDC, Asia-Pacific will continue to lead the worldwide smartphone market because of its sheer size and smartphone shipments in this area are expected to reach 698 million, accounting for 50.9% of all smartphone shipments worldwide by the end of 2027. In 2022, the economic crisis hit emerging markets the most and smartphone shipments in the Asia-Pacific declined by 12.8%. In particular, China witnessed the largest decline (-13.2%) as a result of its aggressive lockdowns and soft consumer demand. In China, leading brands suffered more as China's domestic market contracted more than the rest of the world amidst rapid deterioration of China's economy and price-conscious consumers backed off from spending more in product segments that were dominated by them. Chinese smartphone manufacturing industries shrank 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 slowdown of economy and the real estate crisis of China which dampened people' consumption and demand for smartphones and undermined the region's growth trajectory, as well as disrupted supply chains. India registered 144 million smartphone shipments with a YoY decline of 10% in the 2022, and 5G reached 60% of total smartphones with 50 million units. The lowest annual shipments since 2019 were mainly attributed to the low consumer demand caused by high inflation despite the improved supply situation. In China, because of market saturation and the drop in demand, it was widely acknowledged that the smartphone market was stagnant and many handset brands faced inventory accumulation challenges and struggled to clear inventory since the third quarter of 2022 and this in particular affected the fourth-quarter performance of the Group. The Group's two main regional markets — Mainland China and India — both faced this issue and this affected the performance and recovery of the Asia segments in 2022 and has well continued to do so in 2023 and it will take some time to return to pre-pandemic level.

Finally, our success also depends on the performance of business of our customers. One of the Group Chinese customer also faced headwinds abroad and had to fend off rising regulatory pressure in India, the customer's second-largest market by shipments. This also somehow affected the Group's sales to this customer in India. Finally, sales to an original major customer which was subject to U.S. ban dropped dramatically.

As a whole, 2022 was originally to be the year of post- COVID-19 normalisation, labour market healing, and a growth revival, we kept some assets to cater for anticipated volume gain in 2022. But the recovery was slow and the sustained decline of demand directly affected the utilisation of capacity and assets (in particular land and building) and there was a need to continue the downsizing and restructuring activities and downsize or terminate loss-making operations. Despite these factors, Asia segment remains the Group's core performance contributor in 2022, but the weight to the Group's overall sales and results declined. Rapid normalisation in Asia could lift many tides: bolstering export demand in Europe; improving supply chains and, in turn, offering an antidote to inflation; and allowing emerging markets to break out of a cycle dominated by the strength of the U.S. dollar.

Major factors affecting segment performance

Impacts of China economy

As the global economy faced the looming danger of recession, China's economy also slowed down and its annual growth rate of 5.5% remained unmet and China officials had to downplay the need to meet the target. The Chinese policy doubled down on the "Inner Circulation" part of the "Dual Circulation" strategy, which aimed to be more self-reliant for strategic supplies and had been China's key economic policy since the pandemic in 2020. This strategy aimed to simultaneously stimulate domestic consumption (internal circulation) and the international market (external circulation). The heavy focus on "inner circulation" gave foreign investors room to adopt a localisation strategy to seize the expanding Chinese market. After all, the critical goal of being self-reliant was 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. In 2022, China faced many kinds of headwinds. Firstly, the faltering and debt-ridden property market sector, which accounted for one-third of its GDP, contracted for many quarters and extended its longest slump in history. Secondly, China's zero-COVID policy until December 2022 to combat the coronavirus crippled its economy. Stringent lockdowns in several cities including the manufacturing hubs like Shenzen and Tianjin and Northern China dampened consumer consumption and business confidence, and foreign businesses were hit and the "massive uncertainty" surrounding curbs prompted firms to consider a shift of current and future investments out of China. In a world of surging inflation, China's price increases were moderate, reflecting poor consumer demand. To revive the economy, the government could spend more on infrastructure, which could have some positive impact. But the hard truth was that the lockdowns did great damage to the economy, and that greater infrastructure spending did little to revive downstream industries and services that were depressed by the lockdowns. After the uplifting of stringent zero-COVID controls in December, there was surge in infected cases and production of the Group was affected. Thirdly, the stringent COVID-19 curbs slowed down the economy and left millions of youngsters/graduates facing fierce competition for an ever-slimming raft of jobs and a lack of prospects plagued China's job market, which was already in a dismal and bleak state. China continued to see job market pressure, given slower GDP growth creating fewer jobs, sluggish external and domestic demand, struggling small and medium-sized enterprises, and the still-high number of university graduates for years. Propping up domestic demand to support jobs remained a policy priority, which was key yet challenging.

Morgan Stanley Chief China Economist Robin Xing said in December 2022 that recovering private consumption could lead the economy to a modest recovery in 2023. "We're forecasting 5% growth in 2023, with most of that coming in the second half of the year, when the economy is expected to fully reopen following the repeal of zero-COVID policies." This represents a significant improvement on market's forecast of 3.2% growth for China in 2022, which is a sharp decline relative to average growth over the last decade.

### (i) Impact of COVID-19 and weak demand

#### (a) China

In the first half of 2022, the China COVID-19 situation exacerbated an already volatile supply situation and the resurgence of COVID-19 cases in many Chinese cities, including major electronics manufacturing hubs, led to reduced output and supply constraints, besides creating port congestion, which were bound to create downstream supply chain challenges and hurt production. Weakened consumer sentiment caused by the Chinese government's dynamic zero-COVID policy which weighed on consumption, and the lack of product upgrades, were the two main drivers for the year-over-year decline in smartphone shipment in 2022. It was evident that consumer sentiment became weaker every time strong COVID-19 quarantine measures were taken. A lack of perceived innovation keeping consumers from upgrading meant consumers held on to their handsets for longer, and this extended retention rate had a notable impact on the market. The proportion of consumers with low-end and mid-range handsets grew, impacting sales and revenue for manufacturers, retailers and operators. From the end of January 2022, 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. Chinese consumer sentiment picked up a bit during the Labour Day holiday but major brands could not avoid this overall market contraction and brands cut back on orders in light of growing uncertainties. During 2022, handset players became less optimistic and reduced market expectations and became more prudent when planning demand and supply chain arrangement and scaled back orders for the following quarters from previous plans following month long COVID-19 lockdowns that had severely disrupted supply chains and battered consumer confidence. They could adjust orders again as they continued to monitor the supply chain situation and consumer demand in its home market. This grim outlook posed a contrast with the start of 2022, when most market players expected a gradual recovery in the post-COVID-19 era when component supplies improved. China's strict zero-COVID policy until December 2022 triggered economic disruptions which rippled through global supply chains. In November of 2022, there were COVID-19 outbreaks in our site in Northern China and there were serious impacts to the productions.

In the first half of 2022, the temporary factory shutdowns during city lockdowns and the COVID-19 outbreak led to a halt of two of the Group's China operations and shipment for some time. During factory shutdowns, we implemented a "closed-loop" process. Thanks to the support of local Chinese authorities, productions were suspended for a comparatively short period of time and productions could resume in a quick manner. The government's experience in curbing the outbreak could help mitigate the impact. Suppliers and logistics service providers and customers along the value chain also gave tremendous support during the difficult period of time. Site management team were proactive and dedicated in implementing various measures to minimise the impact of production interruption and control costs and expenses. Chinese local authorities in other regions, with lessons learned from Shanghai, were inclined to implement radical pre-emptive restriction measures if a rise in cases was reported to avoid potential political consequences. The time of the factory shutdown

in Northern China in November was longer and the negative impact was significant. After all, China upheld a zero-tolerance approach to COVID-19 till December 2022, despite low case numbers and even as the rest of the world tried to live with the virus, proved unwieldy given the extreme infectiousness of the Omicron variant. For the details, please refer to the section of "Impacts of COVID-19 and Supply Chain Instability".

**(b) India**

In the first half of 2022, the "third wave" of the COVID-19 pandemic, which lasted from the end of December 2021 to the end of February 2022, had very 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 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 and supply instability eased since May 2022.

India's smartphone shipments declined 9% YoY to reach over 152 million units in 2022, according to the latest research from Counterpoint's Market Monitor service. The YoY decline, which is the second ever in India's smartphone market, can be attributed to the decline in entry-level and budget segments which faced supply constraints at the beginning of the year and then witnessed lower demand throughout the year. However, the premium segment continued to rise and captured a double-digit share for the first time, leading to growth in retail ASP. This paradoxical trend implies that India's smartphone market is moving from being volume-driven to value-driven. While entry-tier and budget segments were most affected, the premium segment remained immune and showed double-digit growth. OEMs' increased focus, consumers upgrading for premium features and, most importantly, availability of various financing schemes like 'No-cost EMI', 'Buy Now, Pay Later (BNPL)'.

Consumer demand started declining from the second quarter when the global economy was crippled by multiple macroeconomic issues like all-time high inflation, rising unemployment and geopolitical conflicts, affecting India's economy as well. Inventory build-up across channels after the second quarter led to lower-than-expected shipments throughout the second half of the year.

For India, the real outlier, GDP is on track to expand 6.2% in 2023 and 6.4% in 2024, while three megatrends, underpinned by the country's advanced digital infrastructure, are putting India on a path to surpass Japan and Germany and become the world's third-largest economy by 2027. "India has the conditions in place for an economic boom, fueled by offshoring, investments in manufacturing and energy transition," said Morgan Stanley Chief India Economist Upasana Chachra.

### (c) Vietnam

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

## (ii) 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 and demand dropped and cut-throat competition continues to increase and prices continue to be driven down to gain competitive edge and a majority of the market participants face challenges with respect to the shrinking operating margin in the EMS industry and EMS providers today must survive year-to-year on razor-thin profit margins and do whatever is necessary to survive, including constantly becoming and remaining more cost-efficient in order to stay profitable. The margin compression risk will continue as Asia segment sales growth is driven by the 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 the gross margin of the Group's casing business continues to face huge pressure in 2022 and ahead. As phone demand drops, demand for casing business in China is directly affected and asset utilisation of remaining assets dwindled. The Group has to deal with a volatile economy and variable demand with short visibility resulting in fluctuations in production. Consumers want what they want when they want it, spiking demand for a certain product or cutting orders when their products cannot sell well. Efficient lean capabilities must be in area to maintain inventory aligned with demand. EMS companies are trying to overcome these challenges in a myriad ways combining the traditional and emerging tools and methodologies like the adoption of digital technologies, combining software, connectivity, automation, AI and ML to optimise every aspect of operations to improve time-to-market, time-to-volume, and planning and scheduling, to ultimately improve the customer experience and create a win-win situation. Conventionally, 3C products have been the majority revenue contributor to the EMS market. However, with the start of the digital age driven by the ever-growing dependence on data, automation, and artificial intelligence, the need to embed electronics into products across all verticals has increased drastically. Some emerging verticals that introduce innovative products by adopting IoT include medical and smart-home devices. The automotive vertical will be one of the growth opportunities in the next decade. The development of self-driving cars and Electric Vehicles (EVs) necessitates advanced electronics-based products such as Advanced Driver Assistance System (ADAS) and infotainment that require the expertise of EMS companies.

As competition in China is keen and peers in China are very cost-competitive, 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 itself from competitors. In order to rapidly scale up its casing capability, it made significant capital expenditures in the purchase of machines and computer numerical control (CNC) machines. 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 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$1,152 million when compared with the recorded revenue of US$794 million for the same period last year, and the revenue of Europe segment increased in the current period. One of the Group's major customers, which is a U.S.-based Internet customer with a strong foothold in the States, expanded its sales in Europe and exhibited strong and encouraging growth in 2022 and offset the decline in sales to HMD of Europe segment. From the Group's entire P&L perspective, the strong YoY increase in sales to this U.S.-based customer also offset the shortfall in sales to the original major Asia segment customer which was subject to U.S. ban. As the Nokia-branded feature phones were mainly manufactured in Vietnam, the COVID-19 outbreak in the first half of 2022 and stringent COVID-19 control at the border of China and Vietnam affected the shipment of components from China suppliers to the Group's Hanoi factory and this affected the Group's sales of feature phones to HMD in the first half of 2022. With the re-opening of Vietnam and gradual improvement in the supply chain, production of the Group's Hanoi factory improved in a quick manner. On the other hand, the worldwide feature phone market continued to decline. In emerging markets, the ongoing decline was primarily resulted from brand makers and mobile operators transitioning product portfolios away from feature phones to affordable entry-level smartphones and this also affected sales of HMD to these markets. HMD was extremely low in activity in those markets which were impacted by inflation crisis and foreign exchange and HMD drove other markets in recovery phase more intensively, like India. Future strategy of HMD was to focus on improving smartphone gross margin. This was also strategically important in anticipation of a feature phone market which was declining faster than earlier predicted and moving HMD margin generation more dependent on smartphones in near future. The global economic challenges arising from high inflation and interest rates, depreciation in emerging market currencies and resulting fluctuation in consumer demand, resulting in severe economic instability, were more challenging to HMD's operations than initially anticipated and especially impacted HMD's

business performance in the second half of 2022. To improve its cash position, HMD took a number of actions including active management of operating expenses, reviewing agreements with key partners and optimising their supply chain to improve their future financial position. To reduce costs, HMD stepped out to low-tier ODM competitors. In the first quarter of 2022, two ODM rivals started supplying Nokia-branded feature phone products to HMD.

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. HMD will continue to invest in sell-out rebates while keeping sell-in moderate to allow channel inventory levels to reach sustainable levels. HMD business was reorganised in fourth quarter of 2022 to achieve significant synergies and cost efficiencies. The HMD board took a decision to extend Series A2 funding round. At the end of 2022, the round was still open and HMD management continues discussions to close the round in 2023. HMD Global will continue reading and responding to the market carefully, especially movements of its competition, to understand what the status of market inventory and liability is, because it will define how the market will recover from current turbulence.

To the Group, loss of market share and the impact of the Ukraine war caused HMD to cancel or reduce Nokia- branded feature phone orders and the Group faced lower volume and stronger cost erosion pressure. The loss of sole vendor competitive advantage put the Group in a more difficult and disadvantageous situation in maintaining a fair profit margin with HMD. To control collection risk, the Group controlled sales amount to HMD. All these unfavorable factors accounted for the decline in sales to HMD. Despite of the YoY increase in sales revenue of the Europe segment, the recorded loss of this segment in the current period was US$51 million, when compared with the recorded earning of US$40 million for the same period last year and the year-on-year decrease was mainly due to the need to make additional credit loss allowances for overdue trade receivable of HMD. As HMD strived for greater market share in the growingly saturated market in developing countries, such as India and Africa, where the average income level is low, feature phone consumers were much price sensitive and surging inflation and strong USD and rising food price triggered by Ukraine war further affected the consumption power of low income people of these countries and such decline in demand affected the cash flow of HMD. In order to reduce overall risk, the Group had been selective and controlled the volume of business with HMD and rejected lower profit margin Nokia-branded feature phone projects and shifted resources to explore non-Nokia business opportunities and closely monitored the level of outstanding account receivable with HMD and controlled excess component inventory. As feature phone business is a cash cow of HMD, initially the Group had to strike a well balance and continued to supply feature phone to HMD so that HMD could generate cash to pay to the Group. But as the fund- raising of HMD in 2022 was not successful, starting from the second half of 2022, the Group ceased to accept new Nokia-branded feature phone projects and requested HMD to consign key components, namely memory and earphones, to the Group so that the sales amount with HMD could be better controlled. Furthermore, account receivable balance with HMD was capped and shipment quantity for current ongoing projects was associated with the relative amount of the payments for current outstanding account receivables so that the cap of account receivable with HMD cannot be exceeded. We also adjusted our supply chain management planning by setting a high priority on shipping out slow moving components projects first to avoid excess inventory. In order to further reduce the risks, the Group further refined the business model with HMD and changed from a buy-and-sell model to full material consignment through

HMD's ODM suppliers from February 2023. Buy-and-sell business model means a company buys the materials and adds value and then sells to customers whilst consignment business models mean the customer owns the materials and consigns the materials to the contractor/OEM to do the processing works and then contractor/OEM ships finished products to the customer and records processing fee income in its financial statements. It means that after the change to a consignment model, the Group will only provide processing services to HMD and earn processing fees. This can help FIH reduce excess OPO and excess inventory risk and working capital needed for buy-sell model. HMD will take the material management and excess risk with demand fluctuation. As FIH has capped trade receivables amount with HMD, through the new business model, HMD can get more feature phones from ODMs which can generate more cash for HMD.

The impact of Ukraine warfare on our Europe segment customers was not large. But as there is growing distribution of smartphones by one of our major customer to Europe, there is need to closely monitor the impact and implications. In terms of the smartphone market, according to IDC data, in Central and Eastern Europe, smartphone shipments were down by 19.4% in 2022 mainly resulted from the warfare and rising inflation. As the warfare lingered on, domestic demand for electronics products continued to be hampered. However, from the viewpoint of global market, as the volume of Russia and Ukraine only accounted for 2.7% (Russia: 2.4%, Ukraine 0.3%) of the worldwide shipments and about 1.6% (Russia 1.4%, Ukraine 0.2%) of market revenue, it was not the biggest reason to draw down on global volumes. Given that the Russia invasion might continue to cause other negative effects including the prolonged inflation and the shortage of key materials and food, most handset players had adopted a more conservative strategy for 2022. Inflation had undercut consumer demand, pushing shoppers to curtail spending or trade down for less expensive products as their energy and grocery bills spiked. In Western Europe, market sentiment had been affected by high inflation and the worst impact had been felt in the lower price tiers. The broad picture here was that the euro-area economy had slowed pretty rapidly because much higher inflation had weighed on incomes and on consumption, and energy price weighed on producers, and deteriorating supply chain issues had been amplified by the war in Ukraine. The ongoing hit to real disposable income will continue to weigh on consumer spending, with elevated economic uncertainty prompting people to hold onto their savings. Morgan Stanley expects the euro-area economy to contract 0.2% in 2023 on the back of the ongoing energy crisis and tightening monetary policy. Inflation — which surged to an annual rate of 9.2% in December 2022 — is expected to remain at the high level throughout 2023. The ongoing hit to real disposable income will continue to weigh on consumer spending, with elevated economic uncertainty prompting people to hold onto their savings.

As mentioned above, HMD distributes feature phones to India and Africa and the impact emerged. The Group will continue to closely monitor and assess the credit worthiness and default risk of HMD and the impact of this segment on the Group's overall performance and cash flow. 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 experienced financial constraints and tight cash flow and the Group could have difficulty in recovering trade receivables, or could also result in reduction of demand for the Group's products and services from these customers. HMD's raising of funds was not successful in 2022 and the Company is closely monitoring the level of outstanding

accounts receivable, the situation and evaluating whether HMD can continue as a going concern and risk to the collection of overdue account receivables and associated default risk. Given the increased risk to the timely collection of trade receivables of HMD has been deferred, the Group increased its expected credit loss allowances for trade receivables in Europe segment by US$74 million during the current period.

*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, and electronic products after-market services by the Group's entities located in the U.S. and Mexico. The recorded revenue in the current period was US$2,444 million when compared to the recorded revenue of US$1,212 million for the same period last year, and the large year-over-year increase came from the strong growth in sales to a U.S.-based Internet customer. The recorded earnings for the current period were US$71 million when compared with the recorded earnings of US$51 million for the same period last year, and the increase is attributable to volume gain.

(i) The U.S.-based Internet customer is one of the major customers of the Group. The Group provides a depth of engineering services for customer premium, complex smartphone product NPI (New Program Introduction), and failure analysis services. We can timely ramp up the volume to meet customer demand within a short period of time by managing operation complexity and yield improvement. To strengthen our core competences, we keep developing depth of automation robot software, robot central control system and AI inspection algorithm to reduce labor amount dependency and manual in-consistency, real-time big data analysis and visualisation tool to assist yield improvement. To fulfill customer's orders, we have focused on engaging new products NPI, new products ramping up, yield improvement, and chasing material availability to support customer product launch volume. We also have geographical competitive advantages and management excellence to provide flexibility/quality/speed to meet customers growing demand.

    In the first half of 2022, we navigated the challenges and difficulties of logistic chaos between the China border and Hong Kong for the import/export activity, and also the city lockdown in Shenzhen in March. Through the effort of the factory operation team, the situation was under control and the impact was not large. In the second half of 2022, the major uncertainty was unexpected lockdowns. For material and component supply, the group has managed to secure the material supply and minimise the impact by planning ahead and placing longer orders and simulated the longer term capacity and material requirement planning to avoid production interruption. Effort was also put into improving yield via automation. As a whole, we saw significant growth in 2022.

(ii) For the reverse logistics and repair and refurbishment business, in 2022, the Groups' strategy was to diversify the business model which included bringing in different product lines, building new service levels etc. So, besides smartphone repair/refurbishment services, our global service team worked on supporting various products after-market services in 2022 such as drone product. Right now, the Group's Asia team is one of the major service providers to the largest drone OEM in China's domestic market. The Group's Dallas site 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 scaled up the service in 2022 to support the growing demand. The traditional smartphone repair and refurbishment business shrank year over year due to changes in OEM's design (in material and modules etc.), prolonged replacement cycle, and demand drop of secondary market. Besides the smartphone, the satellite dish STB product also phased out from the market. Starting from the third quarter of 2022, our Mexico operations were impacted by business shrinking and the decline will carry on into 2023. Our service team diversified the after-market service model to adapt to all these changes. Not only bringing different product lines, we also eliminated some low margin customers with which no economic volume to sustain the operations. The fourth quarter of 2022 was the most challenging quarter compared to the first three quarters of the year 2022. Both Mexico and U.S. sites were impacted by demand drops in the fourth quarter of 2022 and continued to the first quarter of 2023. Due to the highest inflation rates since 1980 and a potential economic crisis in 2023, most of the USA companies foresee a recession in 2023. Not only forecast dropped, but also new projects were canceled or postponed, and the situation was worse than during the post-pandemic. Concluding the year 2022, our North America operations not only encountered known difficulties such as unstable material supply; we also met various unprecedented challenges including labour shortage, high attrition rate etc. which impacted our U.S. operations and caused profit shrinkage. On top of it, the war in Europe slowed the recovery of the economy, caused high inflation and triggered a potential financial crisis. This caused most customers to either cancel new projects or decrease demand forecasts starting from the third quarter of 2022 and the whole year in 2023.

On the other hand, global trade competition also influenced customers to expedite localisation and to restructure their supply chains. This looks to benefit our North America operations in the long run and we shall see the results starting in the year of 2023. We have seen many first tier OEM customers' investments and plans pouring into the region. Our U.S. operation has been in the process of the transformation to adapt to the trends in hopes of rising to the occasion. Thanks to this trend in customers' North America supply chain management solution strategy, both U.S. and Mexico sites were awarded new projects starting in the fourth quarter of 2022 and 2023. Mexico site had been involved in numerous RFQ (Request for Quotes) for automotive projects and medical products for 2023 and 2024. Capital investments for plastic injection capability and SMT capacity are being executed per plan at Mexico factory.

(iii) In 2021, the Group had 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 momentum built from 2021, we continued to obtain project wins in different U.S. operators in the first half of 2022. In particular, 5G products grew in demand and gained more momentum as the operators were promoting more 5G services and 5G products which became more affordable as chipsets for mid-to-low tiers products became available and the Group could

leverage this trend to earn more business in this segment and was seeing more 5G products in our shipment portfolio based on the momentum. The difficulties encountered were extremely fierce competition in this market segment which pressured us in cost and new technology adoption, the semiconductor supply instability which caused fulfillment difficulty and loss of revenue/profit opportunities, and the unpredictable COVID-19 burst out from time to time which caused forced lock down, material unexpected supply instability, uncontrollable production plan and chaos in logistic arrangements. But these driving forces pushed us for continuous improvement in design, sourcing capabilities, logistics flexibility, as well as more close partnerships with key suppliers. Given our initial success in top tier U.S. operator business, we saw increasing opportunities for more U.S. operator business and expansion of more product portfolios over time. The hardening of interest rates, particularly in America, impacted the flow of funds and the provision of liquidity. Most advanced economies were grappling with high inflation and falling demand. In fact, central banks with heavily bloated balance sheets were in a precarious position. After years of quantitative easing, the U.S. Federal Reserve began the process of quantitative tightening together with raising interest rates and cost of funds. As a result, private consumption in America fell, affecting the growth prospects of emerging markets in general and the rate of growth of this part of business.

Due to the increase in sales to the U.S.-based Internet company, the performance of the America segment had a positive impact on the Group's sales performance in 2022, 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***

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 report, the peers' analysis is divided into casing business and EMS business. But it should be noted that the Group provides a one stop solution and manufactures both casing and system assembly together and sells complete handsets to some customers. Since 2018, many smartphone vendors proceeded to adopt the metal mid-frame with glass/glastic back cover for better Wifi/LTE signal performance and wireless charging, which lowered the utilisation rate of CNC (Computer Numerical Control) machines, so the smartphone centric mechanical vendors were forced to adjust their product mix. As a skeleton of 5G smartphone, the structure, precision and processing method on metal mid frame is far more complex than traditional metal cases, and a higher average unit price was expected. Yet, in order to stimulate mobile phone sales to clean up pile-up inventory since the middle of the previous year, Chinese brand companies offer bargain 4G/5G entry phones which further damage the casing business profit in an already over-supply competition. In reality, most of our casing competitors have already extended their business to non-mobile phone products due to the saturation of China smartphone market and hiked operation cost. China domestic labour costs and turnover rate have risen sharply, yet the efficiency of assembly line workers has not increased correspondingly and the cost advantage of China is no longer comparable with other countries in Southeast Asia like Vietnam and India in the medium term. Therefore, the Group will put effort to diversify its customer mix, product mix, and manufacturing location and devoted itself to improving existing technologies and manufacturing, delivering innovation on

both processes and materials, enhancing the core competence and capability of mechanical engineering (which is critical to the successful running of casing business), quality and efficient customer responsiveness and speed, shorter mold manufacturing cycle time and cost effectiveness and efficiency of casing business.

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

(i) Peer 1 is a PRC listed company whose shares are listed in the Shenzhen Stock Exchange and its core business also includes consumer electronics precision structural parts and module, electronic connectors and components, new energy vehicle connectors and module, and robots, industrial Internet. The company has been aiming to lower the proportion of revenue from Chinese customers and mobile phones to reduce the dependence on a single product and pump up the margin performance. In the first three quarters of 2022, its revenue rose by 49.5% year-over-year. The company's business with an international customer has kept growing and the casing and component of its notebook and smart wearables have gone mass production. Apart from this, the company has been actively expanding its new energy vehicle business, which was another key momentum for its growth. For instance, the company has not only increased its production capacity for battery structural part but also entered into a new joint venture, which provides coating solutions for advanced battery components and systems in electric vehicles, as well as energy-storage applications in China. Moreover, to step into the Metaverse industry, the company has built strategic partnerships with several customers in AR/VR fields and has obtained the supplier qualification of key customers. Yet, in terms of profitability, its gross profit margin and net profit margin were down by 9.6 and 2.5 percentage points respectively, mainly attributed to the relatively low yield and low gross margin of several products during the ramp-up period, skyrocketed material price, rising operating costs, and suspension of its production bases led by the resurgence of COVID-19 in 2022.

(ii) Peer 2 is a Hong Kong listed company whose business includes handset casings and high-precision components, household and sports goods, network communications facilities, and smart electrical appliance casings. In the first three quarters of 2022, the company recorded a 17.9% year-over-year decline of revenue, since the deteriorated macroeconomic situation and the weak Android smartphone market have adversely affected its handset-related business. Though the handset casings and high-precision components business remains the company's core business, the company has been dedicating to optimise its product portfolio by dispersing deployment in non-handset related high-growth industries (such as AR/VR products and electric vehicles) to promote the continuous growth of business in the long run and improve the profitability. In line with the objective, the company has strategically partnered with and provided related components to its existing customers and other global top-tier internet technology brands that develop metaverse products. Meanwhile, the company expanded into new energy vehicle business by closely working with the leading new energy vehicle battery manufacturer, and it also announced

signing an MOU with Cornerstone to facilitate R&D in the EV charging stations and marketing of the use of EV charging stations in Hong Kong and the PRC. Yet, it's worth mentioning that, in late 2022, the company announced the sale of its automotive interior parts and battery aluminum parts business to concentrate more resources on the existing businesses with established scale and potential for development. Looking ahead, the emerging segments (e.g. wearables and VR devices) are expected to become the new growth drivers for the company in the 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, geopolitics and protectionism, the China smartphone's market saturation, component constraints, global logistic problem, China's factories lockdown due to the domestic prevention measures and pent-up consumption power caused by inflation also affected the companies significantly in its OEM business. In response to these factors, some competitors in this industry aggressively established manufacturing capacities out of China and put more effort on other high-margin and high-growth businesses, even expand into new industries by leveraging their resources. The Group's Indian operation is strong due to its ownership of a very large system assembly capacity and its vertical integration from PCBA to complete handset assembly, while currently there are only a few peers with existing overseas capacities or overseas capacities that are just being established, so the Group can utilise its existing capacities in India, Vietnam and other countries to capture first-mover advantages.

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

(i) Peer 1 is a Hong Kong listed company whose business includes mobile phone and laptop assembly, new intelligent products, components and parts of the mobile phone and laptop, and automotive intelligent system. In the first three quarters of 2022, the company reported a 7.9% revenue increase. Its revenue from EMS/ODM and components still accounts for a large portion of total sales. Despite being affected by the weak Android smartphone market, the company's assembly and component share of tablets from an International, non-Android customer continued to rise, which mainly drove its revenue to grow. Meanwhile, the decline of the revenue in components was partially offset by the new smartphone and laptop structural parts orders from an international customer, and the orders obtained from a Korean customer. On the other hand, the company has been accelerating the expansion of diversified products, including new intelligent products such as smart home, gaming hardware, robotics, unmanned aerial vehicles, residential energy storage products, etc. In particular, its residential energy storage products have contributed to its revenue growth from this year, benefiting from Europe's energy crisis and the energy transition trends. Also, its revenue from the automotive intelligent systems has been continuing to soar, benefitting from the significant increase of new energy

vehicle shipments of its parent company and its rapid expansion of new product lines. As for profitability, the company's gross profit margin and net profit margin went down by 1.2 and 1.5 percentage points year-over-year respectively in the first three quarters of 2022, reflecting the continuous negative effects of the pandemic and weak Android market demand. Looking into 2023, the company's major growth drivers are predicted to come from its growing share gain in OEM/components from a major international customer, automobile segment expansion, and burgeoning new intelligent products such as residential energy storage.

(ii) Peer 2 is a reputable U.S. listed company which is an EMS provider focusing on delivering complete design, engineering and manufacturing services to automotive, computing, consumer, industrial, infrastructure, medical, clean technology and mobile OEMs. Its net sales uplifted by 16.6% in the first three quarters of 2022, while the net income margin modestly went down 1.4% year-over-year. Although the whole consumer electronic market faced a downturn in the period amid persistent challenges, the strategy of fully-diversified product categories and geographical allocations put the company in a stronger position to face the headwinds. There was a decline in its consumer devices segments, but the strong demand in communication and cloud products as well as market share gains of lifestyle business (e.g. appliance, homecare and audio) drove sales up. Additionally, automotive-related products were also a driver for better performance as the car market is reviving after pandemic. In terms of profitability, though the company was able to transfer some the inflationary costs to customers, the margin still had been impacted by the component shortage, raising price and increased logistic costs. The ascending interest rate ruined its net profit either.

(iii) Peer 3 is a Shenzhen listed company whose main business is EMS service for consumer electronics, internet communication product, smart devices and automotive electronics. In the first half of 2022, its sales skyrocketed by 77.3% benefiting from new orders from two major Chinese smartphone brand companies, yet sales dropped by 11.2% in the third quarter as the inventory pile-up issue emerged. In fact, the company has aggressively built its capacities in India and Vietnam which directly competed with the Group. Even more, one of the Group's customer is proceeding to partner with the company for the establishment of manufacturing resources in Vietnam to develop the local market and the whole Southeast Asia region. However, due to the different business model from consignment to buy and sell, the margin of the new orders was much lower than before. In the first three quarters of 2022, the company reported gross margin and net margin decreased by 3.0 and 3.4 percentage points. Similar to other competitors, the company is expanding its product portfolio to non-mobile phone business including smart wearables and tablet, and moving into the automotive electronics segment, via a partnership with a leading vehicle electrification supplier.

(iv) Peer 4 is a Shenzhen listed company having several business segments including precise components, structural parts and module, charger, assembly, materials and automotive components. In the recent years, the company has restructured its organisation and aggressively developed the assembly and charger business in line with its core strategy — "vertical integration". The movements include acquiring several factories from existing players, jointly establishing a factory in Turkey with its customer, investing in its partner's Vietnam subsidiary, signing agreements with Guilin government to build an

intelligent manufacturing industrial park in Guilin to develop charger business and making other oversea and domestic capital investments with wide-ranged product portfolio covering TWS, AR/VR, smart watch, EV battery casing and solar inverters and so on. Those acquisition and investments made its revenue grow quickly. In the first three quarters of 2022, revenue grew up by 14.1% even in the challenging environment. Besides, gross margin was increased by 2.5 percentage points thanks to improved margin performance in the precise component segment and a better product mix.

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

***Investment***

On the basis that the value of each of the investments mentioned below as of 31 December 2022 is less than 5% of the Group's total assets as at 31 December 2022, the Company does not consider any such investment as a significant investment for the purposes of the Listing Rules.

*Investments in Business relating to Nokia-branded Products*

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

HMD switched its supply chain from a single vendor model to a multi-ODM set-up since the second quarter of 2019. Up to now, all of HMD's smartphone portfolio is manufactured by the other ODMs. For the manufacturing side, the feature phone business continued to be managed with a focus on profitability, to maintain portfolio competitiveness, 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 31 December 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 change its listing market to Hong Kong. Hence, CloudMinds has completed its recapitalisation process and several rounds of financing to enhance its future technology development and financial status starting from the end of 2020. In the first half of 2022, CloudMinds successfully secured over US$200 million in its B+ round financing after the recapitalisation. The investors came from a number of highly respected strategic investors. In the fourth quarter of 2022, CloudMinds initiated its Pre-IPO round with the target of going public in 2023. 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 31 December 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 and the global economic headwinds, Augentix still achieved a near 80% and 78% revenue growth in 2021 and 2022, and it still keep the pace to develop new products. Augentix's new series of AI SoC will provide broader edge computing applications and enrich the features for use in surveillance, home security and consumer IP camera. The Group invested around US$0.7

million in Augentix by subscribing Augentix's convertible note in December 2019 and the note has been fully converted to common shares in November 2020. Through this investment, the Group expects a deeper collaboration with Augentix to further develop in IoT and V2X industry. As at 31 December 2022, the Group's stake in Augentix is 1.76% 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 several Cota-enabled products coming to market, including Cota Power Station, Cota Asset Tracker, Cota-powered IoT sensor, Cota Power Table, Cota Universal Base, ePaper RFID Tags, Cota-enabled security camera and so forth. The 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. Also, the Cota Universal Base was named a CES 2023 Innovation award winner allowing product manufactures to get wireless power products to market faster. This is Ossia's 6th CES Innovation award. In addition, Ossia's Cota Real Wireless Power was selected by TIME Magazine's Top Inventions of 2022. Ossia has secured over 200 global patents for wireless power technology and is establishing Cota RF wireless power at a distance as a global standard for wireless power transmission/transfer (WPT) systems. 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. 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). In 2022, SoundHound experienced a record high US$31.1 million in revenue thanks to strong product royalty income. This represents a YoY growth of 47%. Recently, in order to survive during the macroeconomic headwind , SoundHound has implemented certain cost-cutting measures, including a 10% reduction in its workforce, in order to streamline the company and prioritise growth-driving strategic initiatives in key verticals.

Founded in 2007, Snapdeal Limited ("Snapdeal") is a leading e-commerce platform in India, started as a coupon booklet business, but transformed into an online deals platform in 2010 and an online e-commerce marketplace in 2012. The Group invested US$200 million comprising US$150 million in cash and US$50 million subscribed from its existing shareholder at a discounted price in 2015. In 2017, the Group had fully impaired this investment due to its less than expected operation and financial performance. On 21 December 2021, Snapdeal filed the Draft Red Herring Prospectus (DRHP) toward the SEBI for the purpose of IPO. However, the Indian capital market has been experiencing significant volatility recently, and the current stock prices of many high-profile companies have fallen significantly, even below its issue price. In light of this, Snapdeal has carefully evaluated the situation and has made the decision to withdraw the DRHP in December 2022.

The Group made a strategic investment in GFT Ventures I in March 2022. GFT Ventures I is a private fund with around US$110 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, which was automotive technology focused and wholly-owned by the Group. After closing, Mobile Drive Group has become a joint venture which is equally owned by the Group and Stellantis. The investment in Mobile Drive Group and the subsequent share of profits/ losses of Mobile Drive Group will be accounted for by equity method in the Group's consolidated financial statements.

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

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

As at 31 December 2022, the fair value of the Group's equity investments designated as FVTOCI was US$143.6 million, which represented 2.6% 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 The 5G boom, coupled with the ACES trends (autonomous driving, connected vehicles, the electrification of the powertrain, and shared mobility), is driving rapid change in the automotive industry. McKinsey predicts that the market for automotive E/E (electrical and electronic components) and software will grow at a CAGR of 7% to reach US$469 billion by 2030. According to Statista, the global healthcare market will experience organic growth in the coming years due to the aging population and rising health awareness. This growth is expected to have a compound annual growth rate of 10.15%, increasing the market size from US$64 billion in 2023 to US$94 billion in 2027. The user penetration rate is also predicted to increase from 15% in 2023 to 20% in 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. In addition, to fulfill the commitment of achieving Net Zero in 2050, the Group is taking a proactive approach to put green investing as one of the top priorities. By engaging with companies that are devoted to developing various green and eco-friendly technologies and products, the Group will focus on discovering the related industrial investment opportunities in operating efficiency enhancement, low-emission energy sources, and low-carbon transition, helping communities, enterprise, countries, and the Group itself to mitigate climate change and promote sustainability.

Among the characteristics that the Group looks for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations and new business including IoV; favourable long-term growth prospects; and cultural fit with the Group. 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.

Since 31 December 2021, the Mobile Drive Group previously wholly-owned by the Group has become a joint venture which is 50%-owned by the Group and Stellantis individually, and the subsequent share of profits/losses of the joint venture will be accounted for by equity method in the Group's consolidated financial statements. Other than that, there had been no material acquisitions and disposals of the Group's subsidiaries and associates and (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 and tax departments of the Group, the newly-promulgated local laws and regulations applicable to the Group's operations in the PRC, India and Vietnam (being the jurisdictions which are considered, in terms of the scale of businesses and operations as well as the number of employees, factory units and office units, to reflect the comparatively significant impacts of the Group's overall business unit/group operations) that have a significant impact on the Group are highlighted and summarised as follows, in addition to those set out from page 116 to page 120 of the Company's 2022 interim report as issued and published on 15 September 2022:

*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 117 of the Company's 2022 interim report as issued and published on 15 September 2022. The Group's PRC subsidiaries have devised and implemented appropriate corporate initiatives and actions after reviewing the applicable legislative changes consequential to the implementation of the Civil Code in the context of their respective current business, legal or compliance models and practices, and will continue to monitor and assess the implementation and effectiveness of such corporate initiatives and actions, and where they consider necessary, will implement further appropriate corporate initiatives and actions.

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 117 of the Company's 2022 interim report as issued and published on 15 September 2022. On 27 December 2022, the draft Value-Added Tax Law (consultation draft) (Draft VAT Law) was presented to the National People's Congress for approval, and it is expected to get approved and published by the end of June 2023. 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), please refer to the background and previous developments as described in pages 117 and 118 of the Company's 2022 interim report as issued and published on 15 September 2022.

In relation to the draft revisions to the PRC Company Law for public consultation (Draft Company Law Revisions), please refer to the background and previous developments as described in page 118 of the Company's 2022 interim report as issued and published on 15 September 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 118 of the Company's 2022 interim report as issued and published on 15 September 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*

According to Article 2 of the Decision on Implementation of Certain Policies to support Employees and Employers in Difficulty due to the COVID-19 Pandemic No. 23/2021/QD-TTg dated 7 July 2021, the Group's Vietnamese subsidiaries had enjoyed the rate of 0% of the salary fund paying to the insurance fund for occupational accidents and diseases (i.e. full exemption of social insurance premium payments) during the period from 1 July 2021 to 30 June 2022. Upon expiration of the aforesaid exemption, the Group's Vietnamese subsidiaries have resumed the social insurance premium payments at the rate of 0.5% of the salary fund since 1 July 2022, thus increasing their operational costs and cash burden and, in response, their allocation of expenses.

According to Article 5 of the Decision on Policies on Aid for Workers and Employers affected by COVID-19 from Unemployment Insurance Fund No. 28/2021/QD-TTg dated 1 October 2021, the Group's Vietnamese subsidiaries had enjoyed the rate of 0% of the monthly wage fund for employees participating in unemployment insurance (i.e. full exemption of employer's contributions to the unemployment insurance) during the period from 1 October 2021 to 30 September 2022. Upon expiration of the aforesaid exemption, the Group's Vietnamese subsidiaries have resumed the aforesaid contributions at the rate of 1% of the monthly wage fund since 1 October 2022, thus increasing their operational costs and cash burden and, in response, their allocation of expenses.

According to Clause 6 of Article 26 of the Decree No. 35/2022/ND-CP dated 28 May 2022, effective 15 July 2022, an export processing enterprise may apply to carry out other production/services/business activities (in addition to mere export processing activities) in accordance with the provisions of the law on investment, the law on enterprises and other provisions of relevant laws so long as it could satisfy the following conditions: (a) the arrangement of storage area for goods and services of export processing activities must ensure separation from the storage area for goods and services of other production/services/business activities; and (b) separately accounting revenues and expenses related to export processing activities of the one part and other production/services/business activities of the other part. Notwithstanding additional costs incurred in connection with their satisfaction of the aforesaid conditions, the Company's Vietnamese subsidiaries (acting in their capacity as export processing enterprises) may consider making application to the relevant Vietnamese authorities to enjoy the benefit of carrying out other production/services/business activities (in addition to mere export processing activities) with an aim to widening the scope of their operations. At this stage, the Company's Vietnamese subsidiaries have been exploring the possibility of such application.

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 (ESG) aspects, please refer to the Company's separate 2021 ESG report as issued and published on 13 April 2022, bearing in mind that the Company's separate 2022 ESG report is scheduled to be issued and published in April 2023.

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

**Liquidity and Financial Resources**

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

As at 31 December 2022, the Group had a cash balance of US$1,825 million (31 December 2021: US$1,885 million). Free cash flow, representing the net cash from operating activities of US$409 million (31 December 2021: US$281 million) minus capital expenditure of US$143 million (31 December 2021: US$119 million), was US$266 million inflows (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$676 million (31 December 2021: US$857 million) over total assets of US$5,510 million (31 December 2021: US$5,980 million), was 12.27% (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 2.20% to 5.41% (31 December 2021: fixed rate ranging from 0.61% to 5.90%) per annum, with an original maturity of one to seven months (31 December 2021: one to six months).

As at 31 December 2022, the Group's cash and cash equivalents were mainly held in USD, RMB and INR.

Net cash from operating activities during the current period was US$409 million.

Net cash used in investing activities during the current period was US$127 million, of which, mainly, US$143 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$11 million represented net cash outflow from bank deposits, US$5 million represented acquisition of equity instruments at FVTOCI, US$19 million represented advance receipt from disposal of investment properties, US$6 million represented proceeds from disposal of equity instruments at FVTOCI and US$7 million represented proceeds from disposal of property, plant and equipment and investment properties.

Net cash used in financing activities during the current period was US$214 million, primarily due to net decrease in bank borrowings of US$172 million, payments on repurchase of ordinary shares of US$10 million, interest paid on bank borrowings of US$27 million, repayment of lease liabilities of US$4 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 U.S. 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 four months) from time to time to hedge the currency risks resulting from its operations and investments denominated in foreign currencies.

**Capital Commitments**

As at 31 December 2022, the capital commitments of the Group were US$6.3 million (31 December 2021: US$15.0 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 31 December 2022 and 31 December 2021.

**Contingent Liability**

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

**Donations**

The Group has, in the financial year ended 31 December 2022, made donations for charitable or other purposes to a total amount of approximately US$4,000.

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

### *Macroeconomic Headwinds*

2022 was an unusually tough year amid old challenges and new shocks. Lingering COVID-19 pandemic, lockdowns in China, war between Ukraine and Russia, and continuing supply-chain instability, all weigh on the world economy. The compounding impacts put additional upward pressure on prices and caused high inflation, which led most central banks around the world to raise interest rates with a degree of synchronicity not seen over the past five decades,

according to the report of World Bank released in September 2022. To cut inflation to a rate consistent with the targets, the Federal Reserve System ("FED"), the central bank of the United States, has enacted seven consecutive interest rate hikes in 2022, pushing benchmark borrowing rates to a range of 4.25% to 4.5%, which marked the highest level since 2007 Great Recession. In the meeting in December 2022, the FED officials also indicated to keep rates higher through 2023, with no reductions until 2024, as per CNBC report on 14 December 2022. As the global economy keeps destabilising by many factors, most institutions have lowered their global growth forecasts due to the high inflation. The Organisation for Economic Cooperation and Development (OECD)'s Economic Outlook released in November 2022 has revised down global GDP growth to just 2.2% in 2023 from 3.2% predicted in December 2021. Likewise, according to the World Bank's latest Global Economic Prospects report, it expects the global economy is projected to grow by only 1.7% in 2023 revised down for 95% of advanced economies and nearly 70% of emerging market and developing economies amid fragile economic conditions.

***Smartphone Market Outlook***

Regarding the outlook of the smartphone market, given the ongoing macroeconomic headwinds coupled with their overall impact on demand, the market is expected to continue facing challenges and the real market recovery is not expected to occur until 2024 according to the latest report from IDC published on 1 March 2023. IDC has lowered its forecast for smartphone shipments by 1.1% to a total volume of 1.19 billion in 2023, from the 28% growth in its prior forecast, and expects a 5.9% year-on year growth in 2024. In spite of the weak demand amid macroeconomic headwinds, 5G networks are building out globally, leading 5G devices to account for 62% of smartphone shipments worldwide in 2023, and rise to 84% by 2027, according to IDC data. Correspondingly, carriers are also concentrating themselves on facilitating the adoption of 5G networks. According to the Ericsson Mobility Report published in November 2022, 5G telecom subscriptions ascended by 110 million during the third quarter of 2022 to around 870 million. Ericsson estimated subscriptions will grow to more than 1 billion by the end of 2022. By the end of 2028, 5G subscriptions are expected to account for 55% of total mobile subscriptions, with 5 billion subscriptions worldwide. Compared to the rollout of 4G, 5G subscription uptake is faster, with the 1 billion milestone reached 2 years sooner. This is due to the timely availability of devices from several vendors, the faster decline in the price of 5G devices, and China's large and early 5G deployments.

In terms of the largest smartphone market, China, as per the IDC report released on 29 January 2023, the researcher stated that the end of the zero-COVID policy provides a tailwind to the market, but a quick rebound is unlikely as consumers spend on area like leisure and services instead. It predicts a 1.1% year-over-year drop in shipments in 2023, and expects a rebound of 6.2% year-over-year growth in 2024, according to the latest data from IDC Quarterly Mobile Phone Tracker. Previously, IDC also indicated that the domestic replacement cycle is estimated to extend to 34 months last year. Another notable trend in the Chinese smartphone market, similar to the global market, is that the market share of the high-end phone sector priced over US$600 keeps growing as Chinese Android phone makers continue to develop the premium product sector and iPhone has raised the selling price.

Regarding the Indian smartphone market, the major challenges faced across last year will continue to have an impact on 2023, but the migration of 4G users to 5G is expected to be a growth driver, especially in the mid and premium segments. IDC estimated that Indian domestic smartphone shipments will reach approximately 144 million with a 0.1% year-over-year decline in 2023. In recent years, the Indian government has been striving to boost the development of the domestic electronics industry through initiatives including (a) PLI Scheme (at a value of INR2,000 billion); (b) Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (providing financial incentive of 25% on capital expenditure); (c) Modified Electronics Manufacturing Clusters 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 different percentages of the realised FOB (free-on-board). In addition to mobile phones, emerging technologies such as IoT, AI, 5G and the use of robotics and analytics in the industrial and strategic electronics segment, have led to the overall development of numerous electronic products. Other than consumer electric goods, the EV market is also gaining attention as it relies on the electronic sector for a range of components.

***Supply Chain Issues***

Over the past few years, the global supply chain has been severely disrupted by the COVID-19 pandemic and its ramifications. Affected by the lockdown of major ports in China and shortages of parts and workers, many companies chose to build up inventory to manage the strong demand for consumption goods during the pandemic. Yet, several indicators and falling shipping rates on major trade routes pointed out that the global supply-chain pressures had eased significantly from the second half of 2022 after more than 2 years of chaos, driven by both easing of supply chain congestion and decreasing demand due to inflation. For instance, according to the Global Supply Chain Pressure Index (GSCPI), a composite indicator that combines shipping indices as well as PMI (Purchasing Managers' Index) surveys and the costs of airfreight, fell rapidly from a peak of more than 4 standard deviations above its long-run average in January 2022 to a more normal 1.2 standard deviations in November 2022. On the other hand, in response to the shrinking demands, most companies put excess inventory digestion as their first priority from the second half of 2022, which also reduced the pressure on the supply chain from the supply side. As for this year, the Group witnessed the global supply chain gradually got back to a normal level, and the report of Sea-Intelligence on 5 October 2022 also indicated the same and predicting that the supply chain should fully return to normal by early 2023, barring any more unexpected disruptions.

***Increasing Labour Cost in China***

In the past decades, cheap and plentiful labor has aided in China's rise as the "world's factory". Yet, China's labor market is undergoing structural changes — rising labor costs and a shrinking workforce could weaken its advantages in labour supply. The minimum wage in most of the cities and provinces in China has been raised significantly in the past few years. According to the report of BBC Future on 6 June 2022, the manufacturing labor costs in China are already twice as high as in Vietnam. Besides, affected by decades of strict birth control and the rising cost of marriage and giving birth, China's birth rates have fallen for years, and the fall in birth rates has accelerated in the two years since the breakdown of COVID-19. Based on the data released by the National Bureau of Statistics of China. China had 1.41

billion people at the end of 2022, the first drop since 1961. 9.56 million babies were born in 2022 compared with 10.62 million last year, the lowest level since at least 1950, despite efforts by the Chinese government to encourage families to have more children. In addition, it is worth noting that in the manufacturing sector, some factories in China have faced labor shortages in recent years, attributed to not only the pandemic but also age-old prejudice against blue-collar work. China's Ministry of Education forecasted a shortage of nearly 30 million manufacturing workers by 2025. With the ongoing labour-market mismatch issue, the average labour cost will keep being uplifted in China, and it is one of the most important reasons that many foreign-invested enterprises have chosen to move to emerging countries such as India or Vietnam. Rather than relying on Chinese factories to produce goods that are ultimately sold elsewhere, businesses are adopting a "China for China" strategy, which aims to draw on deeper research and development facilities in China to make products for a vast, growing domestic market.

***Geopolitical Tensions***

Apart from the labour issue, the other issue worth noting is the non-stop tension between China and the United States. The U.S.-China economic war and the resulting restrictions have intensified calls in the U.S. and other countries for reducing dependence on China, leading many multinational corporations to move out of China in recent years. According to Anwita Basu, head of Asia country risk research at Fitch Solutions, many companies have adopted the "China Plus One" manufacturing strategy, which involves setting up operations in countries other than China, since the start of the U.S.-China trade war in 2018. In 2022, a series of new U.S. sanctions passed on China's technology industry, including a flurry of export bans and stifling restrictions on companies, have further accelerated the trend. With the increasing bipartisan support in the U.S. for a tougher approach to China, the trend is expected to continue and potentially lead to an intensification of the economic war and sanctions.

***Manufacturing Diversification***

To eliminate the mentioned adverse effects including the risk of China's pandemic situation and increasing labor costs and geopolitical tensions, global manufacturers are accelerating their steps to diversify their capacity globally. According to Counterpoint Research, the global manufacturing industry chain is relocating to specific areas. Among those areas, Vietnam and India are becoming primary targets for manufacturing giants to extend and explore due to lower labor costs, potential local demand, and attractive industrial policies. Additionally, driven by high tariff policies on finished goods imports, Indonesia and Brazil are also being regarded as ideal places for manufacturers to diversify. Leading smartphone and PC OEMs have built their own local factories or partnered with those that have local production capabilities. Morgan Stanley shared similar points, stating that Vietnam's huge public investment in education and FDI-friendly policy has successfully made the electronics manufacturing industry become an influential part of the economy. Its share of electronics manufacturing exports has increased by nearly three times to 32% over the past decade. Comprehensively, according to General Statistics Office of Vietnam, the country's economy experienced a strong growth in 2022, with a rate of 8.02% — the highest since 1997, against the concerns about potential impact of a global recession on its exports. By 2030, Morgan Stanley predicts that driven by an additional 36 million middle class consumers, Vietnam is expected to become one of the top ten largest consumer markets in the world, surpassing Germany and the United Kingdom. This aligns with the goals of global manufacturers seeking

capacity diversification, as Vietnam offers attractive industrial policies and a strong local demand. Similarly, the Indian government is working to expand infrastructure investment and provide land to help manufacturers build factories. Morgan Stanley also believes that multinational companies' sentiment on the investment outlook in India is at an all-time high, and manufacturing's share of India's GDP could increase from 16% currently to 21% by 2031. Tax benefits, investment incentives, and infrastructure spending are driving manufacturers to increase their capital investments in India, positioning it to become a global factory.

***Russia-Ukraine War***

According to OECD, the conflict between Russia and Ukraine, along with the economic sanctions and potential retaliation that followed, has had a significant impact on global markets. As a result, the prices of key commodities for the global manufacturing industry, including oil, gas, metals, and certain agricultural goods, have risen. ING Bank agrees with this view, predicting that although the possibility of de-escalation in the Russia/Ukraine conflict may reduce some of the supply risk, the global oil market will still not return to pre-war trade levels. Additionally, the decrease in Russian and OPEC+ oil supply caused by the conflict will continue to significantly impact oil markets in 2023, and a growing deficit over the course of the year may push oil prices from their current levels. Coincidentally, the International Energy Agency (IEA) has indicated in its Oil Market Report — December 2022 that oil prices may rise in 2023 due to a tighter supply balance. Except for the global manufacturing industry, the World Bank further suggested that, the global economic activity through 2023 will continue to be significantly impacted by disruptions in trade and fuel price shocks, particularly for emerging and developing economies in the Europe and Central Asia region.

***Product Perspectives***

With the popularity of innovations and technologies, the smartphone industry has become commoditised and highly homogenised with standardised specifications leading to increased market competition as the industry became more fragmented. IDC China also indicates that there has been an excess of smartphone performance currently and it is unlikely to have significant innovation breakthroughs in the short term. As a result, self-developed chips have become one of the important strategies for major smartphone vendors to establish their competitive advantage. In the past year, mainstream smartphone brands have launched several products with self-developed chips including Image Signal Processing (ISP), Neural Processing Unit (NPU), and System on Chip (SOC). From the launch and marketing trajectory of these products, it can be seen that major smartphone suppliers will continue to increase investments in self-developed chips in the future. On the other hand, those mainstream vendors have also focused on software optimisation and upgrading, working to provide users with a smoother, more convenient, intelligent, interconnected, and interactive experience across different scenes (e.g. driving, riding, extreme sports, meetings, Web3, etc.) and devices (e.g. smartphones, earphones, tablets, laptops, etc.). Additionally, in light of the environmental protection issue, some smartphone brands have adopted repairability and sustainability as key concepts in their products, using responsibly mined, recycled materials, and recycled plastics as main materials for components, body structure, and packaging. Last but not least, IDC China also believes that foldable phones with newly-shaped designs will continue to see rapid growth. As George Zhao, CEO of Honor, stated, foldable phones are expected to become the

mainstream series of smartphones in the near future. Counterpoint Research shared the same viewpoint, stating that driven by improved hardware design and competitive pricing strategies, foldable phone shipments may expect a 10x growth in 2023 compared to 2020.

***Privacy Issues***

Ericsson found out that along with the advent of 5G networks, the amount of generated data has exponentially increased, online privacy issues including personal data leakage or improper exploitation by third parties have been a major concern for the majorities, with 57% of users expressing their concerns about privacy online. With increasing privacy awareness, technological giants such as Apple and Google have taken multiple initiatives to cope with privacy concerns while protecting user data from being unwittingly collected by third parties. Apple has implemented major privacy protections in the recent updates, including turning off IDFA (Identifier for advertisers) by default and introducing the Privacy Relay feature in iCloud, which encrypts all traffic and routes leaving a user's device. The company also released the "App Privacy Report" and "Digital Legacy" programs, the former lets users realise the frequency of apps are accessing permissions-restricted information, the latter allows users to authorise specific individuals to access their digital data after they pass away. Apple has also introduced the Safety Check feature to help users who may be in abusive relationships or are victims of intimate partner violence to protect their privacy. Google has also announced various privacy features across its products and released a major software update for its Android system with new privacy features to enhance user trust in apps. Google's Protected Computing plan will continue to remove personally identifying information from user account data and strengthen encryption on operating systems and devices. Additionally, Google further introduced the Google One VPN feature to provide additional security and privacy for online connectivity without sacrificing performance. Overall, it is clear that privacy and online security are of utmost importance as more people shift their daily activities to online platforms.

***Keen Competition and Margin Erosion Pressure***

As the smartphone industry is dynamic and competitive, a slowdown in growth leads to industry consolidation, which results in larger and more geographically diverse competitors having significant combined resources to compete against the Group and may put pressure on the supply chain. As competition remains fierce, competition from EMS/ODM/OEM peers is deemed to intensify to create pressure on the Group's business and there may be a slowdown in new customer acquisition with rapidly growing smartphone vendors in the market. The Group also faces competition from the manufacturing operations of its current and potential customers, which are constantly evaluating the advantages of manufacturing products in-house against outsourcing, OEM against ODM. All of these developments have caused pressure on the Group's sales, and the sales mix and customer mix, potentially leading to margin pressure, loss of market acceptance of its services, compression of its profits or losses, and loss of its market share. To address the above challenges and uncertainties and to alleviate the impact of price erosion on gross margins, the Group must remain lean and agile by making quick and decisive business and operational decisions, and carrying out restructuring and downsizing actions to reduce blood bleeding. The cycle time of new product development must be shortened to align with the product launch schedule of customers and shorten the time to market. Besides, the Group will keep developing higher 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 has been adjusted and will focus on new customer development and revenue growth and continually monitor the market competition conditions to respond accordingly.

***R&D Competence Building***

To meet its customers' increasingly sophisticated needs, the Group has kept investing in R&D which is core competence of the Group, and cultivates global research talents (like in India) to secure the competency and is continuously engaged in product research and design activities to manufacture its customers' products in the most cost-effective and consistent manner, with a focus on assisting its customers with product creation, development and manufacturing solutions thereby further strengthening competencies. Due to the ever-intensifying competition in the smartphone industry, companies are spending more on R&D. For smartphone makers, the scope of differentiation has been reduced due to each company aggressively investing in R&D. While on the one hand, this helps the companies grow the popularity of their smartphone models, on the other, it has become essential due to rapidly evolving customer needs and preferences. The Group has dedicated PD (Product Development)/PM (Product Manufacturing) and R&D teams that are composed of experienced talents with superior industrial design capabilities and solid experiences in mass production, which gives the Group its own capabilities of creation, and ability of continuously improving qualities, yield rate, mass production, and customised design. To keep maintaining competitive edge against industry rivals, the Group's design centers are undergoing the optimisation practices on product development process to achieve increased agility and also to meet the tremendous pace of technological changes and customers' needs. The design centers are proactively establishing product portfolio and use it as a marketing tool to approach potential clients; this approach can increase the product development efficiency. The product development cost can be shared by various clients; hence, the implementation for this approach can enhance the competency. To aggressively keep abreast on the latest industry trend, employees are encouraged to keep up with new mobile device industry's technological knowledge (e.g. 5G) and to embrace new technological requirements for stepping into the 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 leading global clients and new technology zones. They are also located in those highly competitive markets in the mobile devices industry. They are able to provide services from product innovation concepts to final product productions, in whole or in part. Their full R&D function resources, global manufacturing support, experienced teams in serving worldwide clients' requirements for large demand, and complex product projects become fundamental for tightening business relationships with customers. Their proven record of serving worldwide clients demonstrates the ability and adaptability to serve not only brand customers but also leading telecommunications operators. The one stop R&D services model along with experienced program/engineering service and in-house manufacturing capability can significantly decrease customers' program management efforts; hence, the customers can then focus on their core in promoting their brand products. These value-added services uphold the customer-centric service mindset. As a

whole, the R&D team helps to deliver corporate strategies; so that it highlights promising ways to reposition the business through new platforms. The R&D team serves as the Group's innovation engine. Offensively, the R&D team's role is the leading vanguard for the Group's transformation in outreach in different fields; defensively, its full service function differentiates the Group's R&D team from pure manufacturing service factories and/or R&D service companies. The R&D team stands in solid position to promote the Group's manufacturing resource advantage to customers in product designs. The R&D team also contributes to the manufacturing upgrades and assist factories for the digitalised manufacturing process. All these have allowed the Group to develop a full range of smartphones and feature phone products with innovations in industrial design, camera and audio applications to differentiate the Group's products from market competition and enable the Group to penetrate global mobile market share. The Group has fully utilised the strength of the Hon Hai Technology Group in vertical integration for product creation. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Technology Group, providing scale, solid experience and control in key components) are especially attractive for Chinese brands. The Group's ability to continuously upgrade its technologies and stay ahead of its competitors will be a big determinant in the Group being able to maintain competitive advantage and secure margins. The R&D team will continue to innovate on technologies such as industrial design, image and audio quality, user experience, AI technology, etc. which will be adopted by various products that the Group will offer, including not only mobile phones, but also data modules, network products, IoT devices and automotive products. The R&D team leverages on the entire product portfolio of mobile and wearable devices to address the opportunity for consumer IoT market and differentiate the IoT products with advanced voice user interfaces and better audio and video features. With over 15 years' experience in consumer products development and over 10 years' experience in Android software development, the Group will contribute its great capabilities in software and hardware integration and optimisation to roll out disruptive products for automobiles (telematics box, in-vehicle infotainment system, smart cockpit, etc.), taking advantage of the Group's extensive knowledge of user experience and software development in mobile ecosystems to seamlessly integrate the automobile into the driver's mobile-centric lifestyle. The Group has made further investment in R&D of new technologies to ensure future business momentum and identify and address the changing demands of customers, industry trends and competitiveness. In India, the Group has been building up its R&D capability and capacity.

***Exploring New Opportunities***

As the mobile phone market has become a mature market with less gained traction, the Group continually seeks investment and business opportunities in other industries with huge potentials, including automotive, healthcare and so forth. On the one hand, along with the 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 policy makers' vision for the transformation of manufacturing set the path for manufacturing to entering a dynamic new phase. The opportunity comes when manufacturing is going towards digitalised to become a networked factory that uses "big data" and analytics to respond quickly and decisively to changing conditions. The Group's R&D team has the capability of creating "smart" equipment required for this industry upgrade. Innovations sparking additional demand is highly possible; thus, the technology knowledge and skill are key factors to keep us remain competitive.

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in 2023. In 2020, the Group has carried out large scale rightsizing and restructuring to eliminate redundant assets and become leaner and has continued to carry out the rationalisation works which improved utilisation and realised cost savings. The Group has implemented and maintained sound and effective systems of internal control and 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 2022***

Regarding key risks faced in 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 2022 handset shipments due to persistent inflation, interest rate hikes, China's stalled economy, the protracted Ukraine-Russia war and a sweeping new set of export controls on China from the U.S.. It was widely

acknowledged that the smartphone market was stagnant. Surging inflation and an economic downturn undermined the confidence of customers in purchasing durable products. A lack of perceived innovation keeping consumers from upgrading means consumers held on to their handsets for longer. This extended retention rate had a notable impact on the market. The COVID-19 pandemic severely disrupted the balance between supply and demand in the smartphones market since 2020. As China is the global manufacturing center for most of these devices and components, and with a nationwide lockdown, the smartphone manufacturing sector was adversely hit by delayed shipments and weakened development of next-generation products. Also, China witnessed being choked off from suppliers, workers, and logistics networks. The increased geo-political risks induced by the Russian invasion of Ukraine weighed adversely on global economic conditions and GDP growth throughout 2022 and boosted inflation significantly, exacerbating the policy trade-offs facing central banks around the world. While sizeable, these effects did not appear to be large enough to derail 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 led to sustained increases in the prices we paid for some components and may also result in increases in the pricing of commodities such as copper and other metals that were used in the manufacture of such components and we might attempt to adjust our product pricing to reflect such changes. But we might not be able to increase our product prices enough to offset these increased costs and 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 costs and increase cost competitiveness. The aspiration level of Chinese workers has increased and they are focusing on high-tech jobs, leaving gaps at the low end of the 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. To tackle these above-mentioned challenges, the Group has to control BOM (Bill of Materials) costs and manufacturing costs and improve efficiency, productivity and yields, and counter gross margin erosion pressure while continuing to monitor the impact of factors affecting the business of customers and their financial health. As component prices are on an average, the key focus lies on the labour costs and yields. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans. The Group has ceased to manufacture loss making Nokia- branded smartphones in 2019 and HMD has adopted a multi-ODM strategy and the Group now only manufactures feature phones for HMD. The Group further stopped accepting new feature phone programs from the mid of 2022. With all those negative factors such as unfavourable product mix, increasing pricing pressure, low utilization, it is extremely challenging to simultaneously maintain market share and defend against margin erosion pressure while remaining cost competitive, lean and agile, and technologically advanced. The mix of products ordered by and shipped to major customers will affect the Group's gross margin as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services and higher concentrations of lower margin programs affected overall gross margin. Some customers may consider insourcing previously outsourced

business or some of the future productions so as to optimise their capacity and asset utilisation and save costs. Because of the uncertainty drop in demand, instead of placing orders of large quantity, customers place more frequent orders of smaller quantity and production schedules from our customers in terms of volume and mix of products or services may fluctuate and this makes it very difficult to forecast order book. With shorter demand forward visibility, the Company has to control and optimise inventory and working capital and material open purchase order risk in the tough period of time. Because of keen competition and surplus capacity in the market and the Group as a result of some of the Group's customers facing strong headwinds, gross margin erosion pressure of both casing and system assembly business are unprecedentedly high and such pressure has continued into 2022 with an arduous recovery path ahead. As a whole, the challenging conditions that the Group has faced since late 2017 have continued into 2022 and will continue into 2023 and there is continued pressure on the Group's gross margins generally.

In addition, an increase in the frequency of some customers diverting business to the Group's competitors, changes in the volumes they outsource or price erosion pressures may also result in our taking future further restructuring or downsizing actions. The Group will have to incur higher operating expenses during periods of transitioning programs to competitors. Any such restructuring or downsizing activities, if undertaken at all, could adversely impact the Group's operating and financial performance in the short to medium terms, and may require the Group to further adjust its strategy and operations. As a whole, 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 vanish, market participants will be able to expand through technological investments. Thus, the impact will be lower in the mid to long terms.

COVID-19 Pandemic

After two more years of lockdown and numerous COVID-19 variants, multiple governments have announced timelines to ease pandemic restrictions and revive their economies. Co-existing with the virus is a consensus in most countries seeing it as a main solution for economic resumption. During 2022, the ultimate size and extent of the impact of the COVID-19 pandemic, in particular China was dependent on future developments which could not currently be predicted at that time, among many other factors, all of which remain highly uncertain and unpredictable. Even after the COVID-19 pandemic 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, evolution of new virus strains, 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. On 7

December 2022, China authorities also lifted strict prevention measures and claimed the virus' ability to cause disease weakened. However, as the weak protection of China's local vaccines coupled with insufficient healthcare resources, experts at that time expected that the surging cases might still hinder economic recovery and disrupt the global supply chain. Bloomberg News released on 28 December 2022, mentioned the risk of the health system being overwhelmed as infections rise and economic activity collapses would weigh on the expectation of a return to normal. A global market strategist for JP Morgan Chase also commented that "China's infection curve will rise and will only peak one or two months after Chinese New Year." She expected the nation to succeed in reopening but still cautioned of "risk in terms of how the virus evolves". In February 2023, according to Chinese government officials, there is little chance of a significant COVID-19 comeback in China over the next two to three months, since 80% of the population already caught the virus and built immune resistance to it. Wu Zunyou, the chief epidemiologist at the China Center for Disease Control and Prevention, stated that a second COVID-19 wave is unlikely to happen soon, despite the widespread movement of people during the ongoing Chinese New Year holiday period. In addition, according to a paper by leading Chinese scientist George Gao published in the Lancet medical journal, no new variants had emerged in the initial weeks of China's recent outbreak. This is in line with China's CDC's statement that their continuous monitoring showed no new strains of COVID-19. "The world should completely calm down from the fear that there are new variants or special variants circulating (in China)", Gao said.

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.

In October 2022, the U.S. imposed the most sweeping export controls on China to date, aiming to curtail China's access to advanced semiconductor technology including chips and tools for making their own chips. U.S. National Security Advisor Jake Sullivan has commented on the rules, stating that the government wants to maintain as large a lead as possible in AI and other prospective technologies, as well as curb a potential threat to national security. The Biden administration also delivered an underlying message that European and Japan authorities and involved companies should get in line with the controls. Beijing has not taken any additional retaliatory measures so far, but it has launched a lawsuit against the World Trade Organisation (WTO) over export controls. However, the suit is not expected to succeed, as U.S. officials claim WTO regulations don't apply when national security is at stake. The U.S. has also thwarted any appeal by blocking the appointment of additional judges to the WTO Appellate Body. These actions by both parties significantly escalate China-U.S. tech competition and expect to pose a huge potential risk to the global environment and the path of economic resuming from pandemic, but it is hard to predict the precise nature, extent, or duration of these economic or political conditions and the impact on our financial results.

*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 91.2% 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 increase the pricing pressure placed on us. The Group relies on a relatively small number of customers for a substantial portion of our sales, and our ability to replace declining sales from end-of-life programs and customer disengagements with new business wins and declines in sales to these customers could reduce our net sales. Please refer to section headed "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and our actions to manage such risk. The majority of the Group's trade receivables are from key established customers with whom the Group has strong established working 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.

As market is volatile and competitive and because of COVID-19 and associated lockdowns, city shutdowns, border control, component constraints, slowdown of general economy, U.S. Federal Reserve balance sheet tightening, soaring inflation and interest rate hikes and credit and market conditions and increasing cost of borrowing could have impact on the businesses and operating performance and access to debt and equity financing and liquidity and cash conversion cycle and 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 may be 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 required 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 kept monitoring credit position and late payments of customers and collections from customers and assessed default risks and reviewed adequacy of allowance for Expected Credit Losses. In particular, the Group's finance team continued 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 take necessary actions to mitigate the risks. The Group had some small customers and the exposure to financially troubled customers might adversely affect our financial results. Especially due to the hit of COVID-19 and lockdowns and economic slowdown, some of the small customers might experience financial difficulty and the Group could have difficulty recovering amounts owed to us, or demand for our products and services from these customers could decline. If one or more of our customers were to become insolvent or otherwise were unable to pay to us in a timely manner, or at all, our financial results and condition could be affected and there was need to increase expected credit loss allowance,

days of our account receivables and working capital requirements due to higher inventory levels and amount of write-off of inventory. Given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group had been deferred, management expected the default rate would increase accordingly due to the impact of COVID-19 and the tough economic environment and Ukraine warfare. After making the assessment, management confirmed that the risk had increased dramatically and ultimately HMD might not be able to meet obligations as they came due based on what's known and knowable. For customer with increasing credit risk, the management had appointed an independent valuer to assist in the estimation of the ECL provision of the trade receivable due from such customer by determining an appropriate probability of default rate, forward looking adjustments and estimated loss given default rate. The Group uses provision matrix to calculate expected credit loss allowances for trade receivables which are not credit-impaired or with increasing credit risk. The provision matrix is based on debtor's aging of groups of various debtors that have similar loss patterns. The provision rate is based on the Group's historical observed default rates taking into consideration of forward-looking information that is reasonable and supportable and available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In light of high uncertainties of global economy and handset market and heightened geo-political tension, the Group reassessed the expected credit loss allowances by increasing the expected credit loss percentage for overdue trade receivables during the current year.

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 last 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 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 continuous profit improvement to new customer development. Finally, the core business of the U.S. Internet customer is not in the mobile phone sector and any change to the business strategy of this customer may affect our sales to this customer. But it is encouraging that this customer is keen to devote resources to the mobile phone business. Finally, our customers may experience dramatic market share shifts in demand which may cause them to lose market share or pricing power or exit businesses.

End market demand slowed down and product life cycle is shortened and preferences by end customers may change, in order to reduce risk, most of our customers do not commit to firm production schedules for more than one quarter and we continue to experience reduced lead-times in customer orders and they may cancel their orders, change order quantities, delay production and shipment or continually evaluating the merits of manufacturing products internally against the advantages of outsourcing and change their sourcing. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products and order fluctuations impede our ability to forecast the level of customer orders

with certainty and makes it difficult to schedule production and maximise utilisation of manufacturing capacity and plan material requirements and control inventory and may lead to the write downs of excess or obsolete inventory that we may not be able to sell to customers or third parties. In that regard, we must make significant decisions, including determining the levels and volume of business and net income and affordable credit and business risks that the Group will seek and accept, setting production schedules, making component procurement commitments, optimising asset utilisation and allocating personnel and other resources based on our estimates of our customers' requirements and demand visibility and strategic decisions to maintain customer relationships and develop in some countries. Should any of our larger customers in this market fail to effectively compete with their competitors, they could reduce their orders to us or experience liquidity difficulties. Finally, there may be changes to existing business models (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 into developing new customers. The building up of business relationships with new customers may present more risks than with existing customers as products of new customers are new to the market and it is not certain whether their untested new products can gain commercial acceptance by the market with looming demand and this make it harder for us to anticipate requirements and plan purchase commitments and inventory levels in line with anticipated demand than with established customers. Ramping new programs may require months before production starts, and often requires significant up- front investments and start-up costs relating to new tooling and processes and personnel and increased working capital and our design activities often require the purchase of inventory for initial production runs before we have a firm purchase commitment from a customer and we may not be able to recover from the new customers. These are particularly evident in the early stages of the life cycle of new products. Our customers may significantly change these programs, or even cancel them altogether, due to decreases in their end-market demand or in the actual or anticipated success of their products in the marketplace. As the financial condition of these new customers may not be very strong, the tightening of financing for start-up customers, together with many start-up customers' lack of prior operations and unproven product markets increase our credit risk and their cash position can be affected if their products cannot sell well. Sometimes we have to offer longer payment terms and the credit risk can be higher. But we will perform rigid credit worthiness assessment and business model evaluation before engaging with a new customer and control credit amount in the very beginning. We will also buy credit insurance to give adequate cover to potential financial exposure. Our goal is to ensure that our terms of engagement appropriately reflect anticipated costs, risks and rewards.

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 the quality, availability and cost of such materials and components, and supply instability will affect our production schedule and then shipment to customers. In particular, the impact of a delay or interruption in supply from a single-sourced component supplier can be catastrophic and we may be required to source these items from other third parties on a delayed basis or on less favourable terms. 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, the procurement team of the Group spends a 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 increases 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 increases we ask for in case of some component price increases. Supply availability and price fluctuations of materials and components are constantly being 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 2023 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 U.S. 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 a guideline in place enabling them to respond immediately when a cyber-attack is detected. For the network control, all the computer servers are located in a Local Network Area (Intranet) using a redundant firewall design. Besides, there is a Global Security Operation Centre (GSOC) which helps manufacturing and functional units monitor their network to ensure any attack to the computer system can be detected immediately and IT department prepares a monthly report to report if any incidence of cyber-attack has been detected. In addition, IT department has a disaster recovery plan and procedure in place to ensure immediate and effective responses/ actions can be initiated when there is an attack to minimise potential harmful impact/losses and operation can be restored rapidly to avoid any business interruption and enable continuing running of business operations of the Group.

As explained, the Group's future business plan would focus on remaining lean and agile and asset light and continually monitor the external macro environment and market competition conditions and internal operational excellence to respond accordingly and continue to devote resources to enhance R&D and business development capabilities. The Group will continue to face all kinds of risks in 2023 and there is a continuing need to dispose of idle assets and carry out restructuring works which will result in losses. The risks described below are not the only ones relevant to us or the industry or geographies in which we operate. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect and impair our business, results of operations, financial condition and cash flows and also the business of our customers and suppliers. If any of the following risks, some combination of the following risks or other risks that are not currently known or are now deemed immaterial, actually occur, our business, financial condition and results of operations could suffer. To the extent the COVID-19 pandemic in China after uplifting of zero-COVID control measures and global economic slowdown and Ukraine warfare and inflation and strong USD can adversely affect our business and financial results, it may also have the effect of heightening many of the other risks described in this section. Unless specified in the relevant risk factors below, we are not in a position to quantify the financial or other implication of any of the risks mentioned in this section. In particular, 2023 risk factors and opportunities include:

***Risk Factors of 2023***

All of the risks in 2022 mentioned above will continue into 2023. The Group's business, financial condition and results of operations are subject to various business risks and uncertainties. The factors set out below are those that the Group believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. There may be other risks in addition to those shown below, which are not

known to the Group, or which may not be material now but could turn out to be material in the future. When 2022 came to an end, we witnessed how global markets and economies had fared through a turbulent year of steep interest rate rises and surging inflation. Looking ahead, 2023 will be another challenging year for the global economy, as core inflation remains elevated, and the response of central banks further strains economic activities. Equity and commodity prices are also expected to fall further as slowing global growth dampens demand. Inflation, uneven economic recoveries related to the COVID-19 pandemic, recovery of China's economy after uplifting of zero-COVID control protocols and geopolitical concerns will dominate the agenda for 2023, negatively affecting both consumer demand and brands' operating costs. Consumers may be affected differently by the potential economic turbulence in 2023 and the global economic gloom is increasingly reflected in consumers' shopping habits, and the handset industry is becoming more unpredictable in the year ahead. Depending on factors such as disposable income level, we foresee that the differences between the shopping habits of low- and high-income households will become more pronounced, as cost-conscious customers are likely to postpone or curtail discretionary purchases, with affluent consumers less heavily affected by inflation. Bereft by global risks and ongoing uncertainties and evolving situation which are impacting the timing and path of recovery in each market, we need to pay careful attention to macroeconomic and political issues in the regions where we produce and sell our products in the year ahead and we also need to develop risk mitigation strategies that can be implemented quickly.

Major risks include:

*(I) Demand Side*

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

As mentioned in above sections, in second half of 2022, as capacity and production of suppliers was ramped up, situation changed and supply chain constraints pulling down on the market since 2021 eased and were no longer the most pressing issue as component orders were cut quickly and suppliers started to be concerned about oversupply and inventory accumulation and the industry shifted to a demand-constrained market and end customers became even more price-sensitive. Many customers reigned in their budgets after months of discretionary spending. Leading brands in China suffered more as China's domestic market contracted more than the rest of the world amidst a rapid deterioration of China's economy and price-conscious consumers backed off from spending more in product segments that were dominated by them. Growth had slowed in China, and major questions loomed about the market's future trajectory. Aside from the domestic risks, China's economy will be pressured externally by the Ukraine crisis and a global slowdown due to interest rate hikes to curb red-hot inflation. An energy crisis has been disrupting European economies. The outlook for the global handset industry in 2023 is uncertain and tenuous, and consumers will be unpredictable and fickle. In the saturated handset market, brands will need to consider carefully the factors that affect consumer behaviors and respond accordingly.

According to the latest Worldwide Quarterly Mobile Phone Tracker forecast, shipments of smartphones declined 11.3% to a total of 1.21 billion units in 2022. Yet, IDC did reduce its 2023 smartphone forecast by 1.1% to 1.19 billion units, given the ongoing macroeconomic environment and its overall impact on demand."With increasing costs and ongoing challenges in consumer demand, OEMs are quite cautious about 2023. While there is finally some good news coming out of China with the recent reopening, there is still a lot of uncertainty and lack of trust, which results in a cautious outlook," said Nabila Popal research director with IDC's Mobility and Consumer Device Trackers. "However, we remain convinced the global market will return to growth in 2024 once we are past these short-term challenges as there is a significant pent up refresh cycle in developed markets as well as room for smartphone penetration in emerging markets to fuel stable long-term growth."

On the other hand, Counterpoint's Market Outlook Service predicts that the global smartphone market will see 2% YoY growth in 2023. The latest forecast has been revised downwards from the previous forecast of 6% YoY growth in 2023, as macroeconomic headwinds and consumer weakness continue to pressure the smartphone sector. It is expected to continue underperforming through the first half of 2023 and only start to grow from the third quarter of 2023. This also has implications to quarterly results of the Group.

The success of the Group ties together with the success of our customers. A substantial percentage of our sales are made to a small number of customers, all of which usually operate in markets with severe competition, and the concentration risk is high. Market developments experienced by our customers and/or market acceptance of their new products/models or new customer development may from time to time affect the Group's business and it is difficult to project future order book of the Group and quarterly performances. A major customer is building additional factories and will reduce the percentage of outsourcing and this will definitely affect the business with this customer. Gross margin can vary from period to period and it is hard to maintain gross margin in the highly competitive marketplace with huge margin erosion pressure as different programs (both old and new) may contribute different gross margin, depending on the type of services involved, complexity of the product, business model, volume of the programs, and bill of material costs. Usually, in the early stages, manufacturing volumes are still low and the gross margin is low as new programs need time to ramp up and achieve economies of scale and there are unabsorbed manufacturing overhead costs to bear. Our customers are constantly seeking to reduce costs in their supply chains and increasingly impose cost-reduction requirements. While we focus on reducing our costs to address pricing pressure, we face huge pressure to achieve proportionate reductions in costs or sustain our current rate of cost reduction. 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 will reduce our revenues and erode our margins. In particular, peers in China are very cost competitive and this is why the Group has to move the gravity out of China. The moving out of China and decline of the Group's sales in China have resulted in deteriorating utilisation of assets and the continuous need to carry out large scale and decisive downsizing and restructuring in Northern China in 2023 to downsize/terminate loss-making and under-performing operations and there will be need to pay severance payments according to local labour law requirements and the

amount can be large which will affect the Group's performance in 2023. Additional restructuring actions may be required once currently-contemplated actions are completed. 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.

(ii) In December 2022, the infrastructure of mass PCR testing and movement tracking through mobile phone carriers was phased out, and Chinese government encouraged those yet to recover from the infection to return to work. In January 2023, China adjusted its response to COVID-19 prevention and control in recent weeks. It announced it will downgrade COVID-19 management from Class A to Class B infectious disease while resuming passport, visa issuance and easing border-entry policies starting on 8 January 2023. It also changed the Chinese name of the disease from "novel coronavirus pneumonia" to "novel coronavirus infection." After maintaining restrictive pandemic policies for far longer than the rest of the world, China dramatically eased its zero-COVID restrictions in December 2022 and China's borders, which have effectively been closed for nearly three years, also reopened. Without doubt, the government's decision to bring an end to their policy of zero tolerance toward COVID-19 raises questions over how the economy will perform as a result. It is believed that this will prompt a rebound in services activity. After 2 years of pent-up consumer demand may ultimately imply a cyclical boost to the services sector, as reopening benefits restaurants, travel, and other consumer services. China's consumers do not enjoy the same high level of excess savings and tight labor markets that U.S. households did amid reopening, but a more normalized backdrop — along with a continued increase in fiscal and other policy stimulus — gives China a chance for a cyclical uptick that's been largely elusive in recent years. But the Chinese economy was already facing several headwinds unrelated to the pandemic, such as a deceleration of the property sector and slowing export growth — in fact, 2023 could be an even more difficult year for China's external sector than 2022.

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

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

(iv) In 2023, the Group is taking the "big consignment approach" towards HMD for controlling the outstanding account receivable balance and the main business scope with HMD will become the provision of processing services to HMD. It means that sales amount of phones to HMD will decrease and processing income will increase. As the fund-raising of HMD is not successful in 2022 and HMD is cash tight and there is no guarantee that the change to consignment mode can succeed. The Group also has to continue to monitor and review the adequacy of expected credit loss allowance and make additional allowances according to requirements of IFRS. Also there is need to evaluate going-concern risk of HMD.

(v) Some people believe that the performance of mobile phones is now very strong with all kinds of basic functions, and there is no breakthrough in product form, and the marginal effect of changing mobile phones is very small. The decline in consumer demand for mobile phones is directly reflected in shipments. Liz Lee, an associate director at Counterpoint said "replacement cycles, or the average time consumers take before buying new smartphones, in 2022 are expected to hit 43 months, the highest level ever. Although the replacement cycle gets shortened sequentially from 2023, it will stay above 40 months." 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.

(vi) To the Group, the impact of Ukraine war is not large in 2022. But the war added uncertainties to the economic trauma of a COVID-19 pandemic that had already led to record rises in public debt, inflation-fueled cost-of-living crises, and labour shortages in essential sectors. Global food and energy prices surged as the world emerged from the pandemic lockdowns of 2020 and spiked higher after the outbreak of war, but many indices are now below their levels of a year ago. 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 could be hit. On the other hand, the Group's sales of smartphones to Europe segment is growing. In 2022, the war damaged consumer sentiment and hit phone demand across the markets in Europe. That is, with consumption moderating, the greatest impact would be felt on non-essential products like consumer electronics. But European countries have so far avoided the mass energy rationing and wave of bankruptcies that were feared, thanks to efforts to build up fuel stocks and rein in energy demand, and — not least — to an unusually mild winter. With no end to the war in sight, the chief threat remains escalation, including the use by Russia of battleground nuclear weapons. That would take the outlook for both the global economy and wider peace into uncharted territory. The Group will closely monitor the development and impact of the shockwaves on the business and cash flow and payment abilities of our customers and end consumers and suppliers and the Group.

*(II) Supply Side*

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

(i) Despite of the lowering of demand, 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 shortened demand visibility. Order lead time for some components can remain to be long and they are being placed on allocation by suppliers. As lead times are long and there is a 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 agreements 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.

(ii) 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 expenses as the 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.

*(III) Inflation*

(i) Vietnam's minimum wage has gone up 6% starting 1 July 2022, 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. Minimum wages of some provinces in China area are also subject to change.

(ii) 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, goodwill, financial assets etc.) to determine whether there is any indication that they have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. As business environment is tough, there may be need to provide impairment loss.

*(IV) Macro-economics*

(i) Global

After years of quantitative easing, in early 2022, the U.S. Federal Reserve began the process of quantitative tightening together with raising interest rates and cost of funds to curb rise of inflationary rates which most advanced economies are grappling with. Private consumption has fallen and smartphone sales have been hit. "The last 12 months have seen the fastest increase in the Federal funds rate since 1981, and the fastest increase in European Central Bank (ECB) rates since the establishment of the Eurozone," says Seth B. Carpenter, Morgan Stanley's Chief Global Economist. "But as consumer goods' supply chains recover and labor markets see less friction, we could see a sharper and broader fall in inflation, which would imply a somewhat easier path for policy and higher growth globally."

Certainly, the interplay of inflation and central-bank intervention will ultimately shape the story of economic growth for 2023. There is an unusually high level of uncertainty surrounding consensus expectations for 2023. For example, central banks tightening more than is necessary could result in a more severe and widespread downturn. Equally, central banks abruptly reversing course — halting or reversing hikes before inflation is controlled —could leave the global economy teetering close to stagflation. Central bankers have inflation targets and while a lower inflation rate is necessary, it is insufficient for central bankers to withdraw from their hawkish policies. Inflation needs to get to a target or below for that to happen. This raises the risk of an overshoot. Factors ranging from macroeconomic issues to challenges stemming from geopolitical events will continue to dampen the sector, Peter Richardson, vice president at Counterpoint, wrote in the report in December 2022. "Persistent inflation, expectations of future interest rate hikes, souring corporate earnings, China's stalled economy, the protracted Ukraine-Russia war, political turmoil in Europe and a sweeping new set of export controls on China from the U.S., all contribute to the downward adjustment of the smartphone market forecast," he said.

FED fund rate has reached 4.25% now and will further go up to 5.25% next year, considering the majority of our cash is in RMB and the deposit rate is only 2.4%, will try to minimise our USD borrowing amount through trading in 2023.

(ii) China

In February 2023, in the Central Economic Work Conference, policymakers identified three chief economic challenges: weakening demand, supply chain shocks, and subdued expectations. Uplifting dynamic zero-COVID measures is a powerful move to dispel investor doubts about the priority given to economic development as part of China's overall policy agenda. If weakening demand is to be reversed, private investment must be encouraged to increase beyond the property sector and Chinese consumers need to indulge in revenge consumption. Then there is no need for Chinese government to roll out a large fiscal stimulus package. The major risk faced by consumers remains the uncertainties stemming from the property market as

consumers might hoard their savings if they do not see substantial capital gain via holding real estate as a financial asset. Local governments should move away from relying on land sales as their main source of revenue. In practice, this means supporting the completion of unfinished projects, providing incentives for healthy developers to increase investment, and consolidating the industry. When the property market stabilizes, stronger property developers will emerge on the back of further policy support. With the U.S. Federal Reserve heading into the final phase of its tightening campaign, China's monetary easing certainly faces fewer constraints. This is particularly true as the USD/CNY retreated to 6.8 in early 2023, compared to 7.3 in November 2022.

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

*(V) Performance of associates and a joint venture*

The investments in associates and a joint venture are accounted for using the equity method in the Group's consolidated financial statements. Unprecedented and uncertain global environment resulting in a wide range of potentially negative long-term consequences which may give rise to potential losses in operation and discrete losses or expenses, such as those related to goodwill and intangible assets in these associates and 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 results of associates and joint venture. The Group also needs to assess whether there is objective evidence that the interest in associates and a joint venture may be impaired. When an objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. During the current period, share of loss of a joint venture was US$4.4 million (2021: Nil) and share of loss of associates were US$3.1

million (2021: share of loss US$1.1 million). Based on the recent performance and the forecast for the next three to five years, the management performed the impairment testing of the investments in associates and a joint venture as at 31 December 2022. Although the joint venture suffered a loss, it was the first year of operation and most expenses were incurred in research & development. Management believed that there would be future economic growth and no impairment was needed for the joint venture after assessment. But as the global economy has not recovered yet and demand is still weak and competition is fierce, impairment risk on investment (including goodwill) is always there.

*(VI)* It is expected that the Group will book net interest expense and foreign exchange loss in 2023. Inflation rates will decline markedly in 2023 but remain higher than the market anticipates. The U.S. Federal Reserve will slow its tightening cycle and eventually stop hiking rates during 2023, but its policy rate will remain higher for longer than expected.

**Opportunities**

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

(i) The impressive speed at which China has achieved herd immunity (Peking University estimated that 900 million citizens had been infected with COVID-19 up until 11 January 2023) means that the worst of COVID-19 is now certainly over, and almost all companies saw 100% of their employees return to work after Chinese New Year holiday.

(ii) The fast-growing India market is one of the Group's major focus. The Group has resumed India casing factory with its own tool shop in 2020, with full enclosure manufacturing processes, co-located with Group's SMT/final assembly factory in Chennai Tamil Nadu. Local EMS capacity combined with Group's strong global multi- site research and development resources, offers variant scope of local service from IDM, ODM, JDM, EMS to fulfill current and potential customers' needs for new product lines. The complete resource mapping readiness allows the Group to closely follow India government's "MII" (Made In India) policy. Looking forward. 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.

(iii) 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.

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

(v) For the long term, the 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.

(vi) On 2 November 2022, the Local Authority and Honxun Electrical Industry (Hangzhou) Co., Ltd. ("Honxun") (an indirect wholly owned subsidiary of the Company) entered into the compensation agreements, under which (among other things) the local authority shall resume the ownership of the two properties from Honxun and a total compensation of approximately US$90.79 million shall be payable by the local authority to Honxun. Such gain is expected to be recorded on the Group's consolidated statement of profit or loss over the years according to different stages of the transaction, in particular the cancellation of land use rights and related certificates in relation to the properties and the properties having been vacated. The final gain arising from the transaction will depend on the actual compensation costs which may be provided to the lessees and service providers of the property and other actual costs to be incurred in relation to the transaction, subject to audit by the Company's auditors. It is expected a gain of about US$39 million will be booked in first half of 2023. But it is not sure if the gain will be booked in first quarter or second quarter of 2023.

The Company refers to its profit warning announcement of 2 November 2022 and its announcement relating to additional inside information about expected 2022 annual performance dated 24 February 2023 respectively, 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 at least the six months ending 30 June 2023 (1H 2023).

Given all of the updates and other matters (including without limitation those relating to slowdown of general economy, weak handset demand, keen competition, margin erosion pressure, under-utilised assets, continuing downsizing and restructuring effort and associated costs, performance of an associate and a joint venture, geo-political tensions, credit and account receivables collection risk, exchange rates volatility, inflation and high interest rates) 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 operating performance for 1H 2023.

That said, the Company currently expects conditions in 1H 2023 to remain very difficult, very challenging and volatile and, factoring in currently-available information, the Company currently believes there is a realistic likelihood of exhibiting a year-on-year dramatic decline in sales and hence a year-on-year deterioration of gross margin and operating performance in the first quarter and probably second quarter of 2023, likely leading to an enlarged operating loss for 1H 2023 when compared with that for the same period last year.

Over the last several years, the Company has been proactively taking appropriate and reasonable steps to seek to improve the Group's performance notwithstanding the various challenges over that period. The Company will keep matters under close review as 1H 2023 progresses, and will make further announcement(s), as necessary, to keep its shareholders and potential investors informed.

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

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

(i) As mentioned above, a gain of about US$39 million in relation to the resumption of properties disclosed in the Company's discloseable transaction announcement dated 2 November 2022 will be booked in the first half of 2023. But it is not sure if the gain will be booked in first quarter or second quarter of 2023;

(ii) 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, deglobalisation, 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;

(iii) customers and their strategies and business and financial conditions and economic slowdown and further adapt; China plus One strategy; China for China strategy;

(iv) 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;

(v) 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, climate changes or natural disasters; surplus production capacity and availability of staff and labour;

(vi) 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/segments and programs for the products or services we provide;

(vii) product maturity and oversupply of certain products or models and poor consumer sentiment. Generally, the Group sees a lengthening of smartphone lifespan, both with existing phones and consumer expectations of future phones, that may be attributable to a slower pace of innovation and longer replacement cycle time. Persistent effects of inflation could further dissuade consumers to upgrade. Increasing ESG considerations mean that consumers may be more cautious with buying a new phone when their old phone remains usable and new models may not offer material advances that would justify upgrading;

(viii) 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;

(ix) when customers reduce/cut their orders, the Group has to cut excess open purchase order and reduce excess inventory;

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

(xi) technology advancement; pace of overseas expansion;

(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) in order to ensure the Group's cashflow is appropriately managed, intra-group dividends declared by subsidiaries within the Group will have dividend withholding tax implications for the Group;

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

(xv) 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;

(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; net interest income/expenses; foreign exchange gain/loss; money market is volatile and the figures for 2023 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 1H 2023, 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 recovery.

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.**

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company is tentatively scheduled to be closed from Monday, 15 May 2023 to Friday, 19 May 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company which is tentatively scheduled to be held on 19 May 2023, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 12 May 2023.

## CORPORATE GOVERNANCE

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

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, 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.

## 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 in respect of the Company's securities throughout the year ended 31 December 2022, and the requirements laid down by the aforesaid Authorisation Procedures and Securities Dealing Policy in respect of the Company's securities throughout the year ended 31 December 2022.

## 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 82,000,000 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK$86,207,170.00. Among these shares so bought back, 10,000,000 shares, 20,000,000 shares, 11,000,000 shares and 23,261,000 shares were cancelled on 14 January 2022, 29 April 2022, 8 July 2022 and 6 September 2022 respectively, whereas the remaining 11,000,000 shares and 6,739,000 shares were cancelled on 9 January 2023 and 13 January 2023 respectively, in these cases in accordance with the Articles.

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 |
| 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 |

| Date of buy-back | No. of Shares bought back | Price per Share Highest HK$ | Lowest HK$ | Aggregate consideration paid (before expenses) HK$ |
|---|---|---|---|---|
| 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 |
| 11 August 2022 | 1,451,000 | 1.03 | 1.02 | 1,493,020.00 |
| 12 August 2022 | 1,668,000 | 1.04 | 1.02 | 1,725,080.00 |
| 15 August 2022 | 600,000 | 1.04 | 1.04 | 624,000.00 |
| 16 August 2022 | 878,000 | 1.03 | 1.02 | 898,690.00 |
| 17 August 2022 | 2,200,000 | 1.03 | 1.03 | 2,266,000.00 |
| 18 August 2022 | 500,000 | 1.03 | 1.03 | 515,000.00 |
| 19 August 2022 | 500,000 | 1.04 | 1.04 | 520,000.00 |
| 22 August 2022 | 500,000 | 1.02 | 1.02 | 510,000.00 |
| 23 August 2022 | 464,000 | 1.01 | 1.01 | 468,640.00 |
| 24 August 2022 | 500,000 | 1.02 | 1.02 | 510,000.00 |
| 15 November 2022 | 1,000,000 | 0.82 | 0.82 | 820,000.00 |
| 16 November 2022 | 500,000 | 0.81 | 0.81 | 405,000.00 |
| 18 November 2022 | 1,000,000 | 0.82 | 0.82 | 820,000.00 |
| 22 November 2022 | 97,000 | 0.80 | 0.80 | 77,600.00 |
| 23 November 2022 | 1,003,000 | 0.83 | 0.80 | 807,710.00 |
| 24 November 2022 | 390,000 | 0.82 | 0.81 | 317,660.00 |
| 28 November 2022 | 410,000 | 0.82 | 0.82 | 336,200.00 |
| 29 November 2022 | 1,100,000 | 0.84 | 0.82 | 910,000.00 |
| 1 December 2022 | 300,000 | 0.86 | 0.86 | 258,000.00 |
| 6 December 2022 | 40,000 | 0.88 | 0.88 | 35,200.00 |
| 9 December 2022 | 499,000 | 0.90 | 0.89 | 447,500.00 |
| 12 December 2022 | 561,000 | 0.86 | 0.86 | 482,460.00 |
| 13 December 2022 | 300,000 | 0.87 | 0.87 | 261,000.00 |
| 15 December 2022 | 600,000 | 0.84 | 0.83 | 500,300.00 |
| 16 December 2022 | 517,000 | 0.82 | 0.81 | 420,770.00 |
| 19 December 2022 | 216,000 | 0.82 | 0.81 | 176,790.00 |
| 20 December 2022 | 67,000 | 0.82 | 0.82 | 54,940.00 |
| 23 December 2022 | 300,000 | 0.83 | 0.83 | 249,000.00 |
| 28 December 2022 | 300,000 | 0.84 | 0.84 | 252,000.00 |
| 29 December 2022 | 300,000 | 0.83 | 0.83 | 249,000.00 |
| 30 December 2022 | 1,500,000 | 0.84 | 0.83 | 1,258,000.00 |
| 3 January 2023 | 2,161,000 | 0.86 | 0.85 | 1,851,200.00 |
| 4 January 2023 | 1,078,000 | 0.87 | 0.86 | 932,080.00 |
| 5 January 2023 | 1,000,000 | 0.86 | 0.86 | 860,000.00 |
| 6 January 2023 | 2,500,000 | 0.85 | 0.84 | 2,121,070.00 |
| | 82,000,000 | | | 86,207,170.00 |

For details about each of the above share buy-backs and share cancellations, please refer to the next day disclosure returns and monthly returns as issued and published from 5 January 2022 to 1 February 2023 (both dates inclusive).

The Board believes that the value of the Company's shares traded on-market was undervalued. Accordingly, the Board is of the view that the above share buy-backs is in the interests of the Company and its shareholders as a whole.

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 AND EXTERNAL AUDITOR

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 audited consolidated financial statements of the Group for the year ended 31 December 2022 and the annual report 2022 of the Company and recommended the same to the Board for approval.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2022. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

## DISCLOSURE OF INFORMATION ON WEBSITES

The annual 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 articles of association of the Company in force for the time being |
| "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" or "current year" | the year ended 31 December 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 |
| "Manual" | the Corporate Governance Compliance Manual of the Company adopted by the Board on 15 April 2010, 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 |
| "Share Option Scheme" | the share option scheme of the Company adopted by the Board on 17 October 2013 and by the Shareholders on 26 November 2013, as amended from time to time in accordance with the terms contained therein. The share option scheme will be valid and effective for a period of 10 years until (inclusive of) 25 November 2023 |

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| "Share Scheme" | the share scheme of the Company adopted by the Board on 17 October 2013 and by the Shareholders on 26 November 2013, as amended from time to time in accordance with the terms contained therein. The share scheme will be valid and effective for a period of 10 years until (inclusive of) 25 November 2023 |
| "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, 10 March 2023

*With effect from the conclusion of the meeting of the Board held on the date of this announcement, the Board comprises three executive directors, namely Mr. CHIH Yu Yang, Dr. KUO Wen-Yi and Mr. LIN Chia-Yi (also known as Charles LIN); and three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih.*