FIH Mobile Limited
富智康集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

ANNUAL REPORT

2022

Contents

This annual report is printed on environmentally friendly paper

CORPORATE INFORMATION

as of 10 March 2023

FIH MOBILE LIMITED (THE "COMPANY", AND TOGETHER WITH ITS SUBSIDIARIES, THE "GROUP")

(References to "we", "our" and "us" are references to "the Company" or "the Company's" (as the case may be).)

EXECUTIVE DIRECTORS

CHIH Yu Yang *(Acting Chairman and Chief Executive Officer)*
KUO Wen-Yi
MENG Hsiao-Yi *(Chief Operating Officer)* (resigned with effect from 10 March 2023)
LIN Chia-Yi (also known as Charles LIN) (appointed with immediate effect from 10 March 2023)

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih

COMPANY SECRETARY

WONG Kin Yan, Vanessa

REGISTERED OFFICE

P. O. Box 31119 Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

HEAD OFFICE

No. 4 Minsheng Street
Tucheng District
New Taipei City 236
Taiwan

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Peninsula Tower
538 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

LEGAL ADVISORS

Dentons Hong Kong LLP
Freshfields Bruckhaus Deringer, Hong Kong
Mayer Brown, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of Beijing
Bank of China
Bank of Communications
China Guangfa Bank
China Merchants Bank
Chinatrust Commercial Bank
Citibank
DBS Bank
Deutsche Bank
Industrial Bank
ING Bank
Mizuho Corporate Bank
Santander Bank
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
Taipei Fubon Bank
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
P. O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

2038

WEBSITE

https://www.fihmobile.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

2022 continued to be a very tough period and the Group contended with almost unprecedented economic volatility, geopolitical tensions, Ukraine crisis, U.S.-China disputes, zero-COVID restrictions of China, component shortages, supply chain constraints, strong USD, high energy-driven inflation depressing demand, falling consumer confidence and accelerating shifts in the industry, coupled with sustained margin erosion pressure from existing challenges of industry consolidation trends and intensifying competition in the EMS (Electronics Manufacturing Services) business. In the second half of 2022, as capacity and production were ramped up, the situation changed and supply chain constraints pulling down on the market since last year eased and the industry shifted to a demand-constrained market and end customers became even more price sensitive. Asset utilisation continued to be a major concern and during the year, the Group has continued the asset-light strategy to recalibrate global facilities and realign resources into productive assets and carried out restructuring activities so as to save costs in the long run. All these factors affected the gradual recovery of the Group and had a dampening effect on our financial performance. Revenue for the year 2022 was US$9,394 million, which represents an increase of US$812 million or 9.5%, when compared with 2021 revenue of US$8,583 million. Loss for the year 2022 attributable to owners of the Company was US$72.1 million, compared to the profit for 2021 of US$56.3 million. Basic loss per share for the year 2022 was US0.91 cent.

We will remain diligent and disciplined in exercising financial prudence and managing our costs efficiently. Due to the fierce competition, lack of innovation caused slow replacement cycle, the mobile phone business has turned into a real low margin business yet with high risk of facing under-utilisation problem for large EMS. The Group has obtained ample knowledge and experience in wireless technologies, product design and development, and lean manufacturing, we are leveraging all the advancement and advantages to transform and diversify into new business sectors. In addition, in order to avoid collecting risk, we only take less risky orders from reputable customers. Thus, revenue growth is no longer the Group's focus, the bottom line improvement is. The Group will strive and work diligently to expand capacity in diversified markets that will be drivers not only for the revenue growth and risk diversification, but also more importantly, the margin improvement, while continuing to harness its R&D (Research and Development) investments and resources and competence and capacity to innovate and transform into new sectors such as IoV (Internet of Vehicles), IoT (Internet of Things), AR (Augmented Reality)/VR (Virtual Reality)/data module, AI (Artificial Intelligence) and Big Data (digital health, smart manufacturing) and diversify both customers and products. Also, as the Group is actively involved in seeking and developing high margin opportunities, business development skills are essential for the success. Currently, a series of business development activities has been initiated and the Group is expecting a rewarding outcome in the coming future.

The Group's financial resources including cash reserves, cash flow and liquidity positions have supported the Group's operations across the range of challenges and headwinds and to operate in an environment riddled with external shocks on a global scale. To maintain the Group's financial resources and bolster the Group's ability to effectively respond to the significant changes in market demand, consumer-buying behaviour, soaring inflation and rapidly changing global and industry dynamics, the Group will continue to traverse adverse conditions and focus on measures to improve efficiency and yields and control overall costs and operating expenses to seek to ease pressure on margin erosion, while simultaneously working closely with the Group's partners to fill their demand in a timely manner at a reasonable cost amidst fierce market competition. Looking forward to the 2023 fiscal year, I expect the operating environment to remain volatile in the year ahead and the future remains uncertain.

CHAIRMAN'S STATEMENT

I would like to express my appreciation on behalf of the Board to our investors, customers, business partners and government officials for the continuous support and trust over the years. I also extend my gratitude to my fellow Board members and all the management and staff of the Group for their loyalty and contribution they have bestowed to the Group and their sustained effort and endurance in coping with the unprecedented difficulties and challenges that were faced in 2022 and for their continued endeavour to sustained teamwork and collaborative effort and strong execution to respond to the challenges of COVID-19 and the volatile global environment. Moreover, I would like to offer my thanks to the staff and their commitment to the Group's strategies to transform into new sectors to maintain long term sustainability and competitiveness of the Group. We aim to continue to execute well and strive to make continuous escalations and improvements in the years to come.

With best regards,

CHIH Yu Yang
Acting Chairman

10 March 2023

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

as of 10 March 2023

DIRECTORS

CHIH Yu Yang (Mr.), Chinese (Taiwan) and aged 64, was appointed as the Acting Chairman of the Company effective 1 January 2017. He joined the Company as an executive director in August 2009. He is also the chief executive officer and the chairman of the corporate governance committee respectively of the Company. Mr. Chih is the executive director and chief executive officer of Mobile Drive Netherlands B.V. (a joint venture incorporated in the Netherlands indirectly 50%-owned by the Company) ("Mobile Drive Netherlands"). He is the chairman and non-executive director of Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited) ("BFIH"), the chairman of Chiun Mai Communication Systems, Inc. ("CMCS") and also a director of Transluck Holding Limited (formerly known as Transworld Holdings Limited), FIH Co., Ltd. and Evenwell Digitech Inc., all being subsidiaries of the Company. Mr. Chih is also a director of iCare Diagnostics International Co. Ltd. which is a start-up company incorporated in Taiwan and engaged in digital health care and invests in diagnostics facilities. Mr. Chih joined the Group in 2005 when the Group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. Moreover, he is a director of a subsidiary and an associate of 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd., ("Hon Hai") for identification purposes only). He has more than 43 years of extensive experience in the communication industries. From 1997 to 2000, Mr. Chih was the vice president and general manager of Communication B.U. in Acer Communications and Multimedia, Inc. (now known as BenQ) where he was responsible for BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hua University in Taiwan in 1980.

Dr. KUO Wen-Yi (Mr.), Chinese American and aged 57, was appointed as an executive director of the Company on 29 June 2018. He is also a member of the corporate governance committee of the Company. Dr. Kuo joined the Group in December 2014 and is currently the vice president of the Group. He is also a director of ICI Cayman Limited and a supervisor of 深圳市富宏訊科技有限公司 (Shenzhen Fu Hong Xun Technology Co., Ltd., for identification purposes only) and a supervisor of 益富可視精密工業(深圳)有限公司 (InFocus Precision Industry (Shenzhen) Co., Ltd., for identification purposes only) respectively, all being subsidiaries of the Company. Dr. Kuo has more than 28 years of extensive experiences in wireless communication product research and development, international business development, start-up business and corporate management. Before joining the Company in December 2014, Dr. Kuo was the founder and the chief executive officer of BandRich Inc. ("BandRich") from March 2006 to December 2014. The core businesses of BandRich were product development and sales of 3.5G (also known as High Speed Downlink Packet Access (HSDPA)) and 4G LTE (the Fourth Generation of Mobile Phone Mobile Communication Technology Standards Long-Term Evolution) wireless routers and communication modules for home, vehicle and outdoor applications. BandRich partnered with the world's dominant wireless infrastructure suppliers Ericsson and Alcatel-Lucent and sold products to worldwide operators. From April 2003 to February 2006, Dr. Kuo was the senior director (department head) of Compal Electronics Inc. (a listed company in Taiwan) and was in charge of the business in 3G (the Third Generation of Wireless Mobile Telecommunications Technology) mobile phone. From May 2000 to July 2002, Dr. Kuo was the co-founder and the chief technology officer of Wiscom Technologies ("Wiscom") in New Jersey, U.S. Wiscom was focusing on development of 3G mobile phone baseband chip. Wiscom's intellectual property rights were later acquired by Intel Corporation. From April 1999 to May 2000, Dr. Kuo was the principal technical staff member of AT&T Labs, engaged in 3G WCDMA (Wideband Code Division Multiple Access) system researches. From January 1995 to April 1999, Dr. Kuo worked in Bell Laboratories of Lucent Technologies on CDMA (Code Division Multiple Access) and WCDMA research and development on network infrastructures. Dr. Kuo is the inventor of 38 U.S. wireless communications patents. He received the IEEE (Institute of Electrical and Electronics Engineers) Leonard G. Abraham Prize in 2001. He was an adjunct professor at New Jersey Institute of Technology in 1998. Dr. Kuo received a Bachelor Degree of Science in Communications Engineering from National Chiao Tung University, Taiwan in 1987, a Master Degree of Science in Electrical Engineering from National Taiwan University in 1989, and a Doctoral Degree of Philosophy in Electrical Engineering from Purdue University, U.S. in 1994.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

MENG Hsiao-Yi (Mr.), Chinese (Taiwan) and aged 58, was appointed as an executive director of the Company on 30 October 2020 and resigned with effect from 10 March 2023. He was the chief operating officer of the Company principally responsible for the management of the Group's factory operations as well as resources integration and optimisation. Since Mr. Meng joined the Hon Hai Technology Group (comprising Hon Hai, its subsidiaries and/or associates) in January 1991, he has held a number of key positions in the connector and mobile phone business, including managerial roles such as (among others) senior supply chain manager, senior procurement manager, director of marketing management and business unit deputy general manager. Mr. Meng has been promoted to senior vice president of the Company for leading EMS (Electronics Manufacturing Services)/OEM business in the aspects of cross-region markets development and management of manufacturing operations in Beijing, Langfang and India in January 2021. Mr. Meng is a director of certain subsidiaries of the Company, namely 創億富能科技(北京)有限公司 (InnoPower Beijing Technology Co., Ltd., for identification purposes only), 富智康精密組件(北京)有限公司 (FIH Precision Component (BeiJing) Co., Ltd., for identification purposes only), FIH Precision Electronics (Lang Fang) Co., Ltd., FIH (Tian Jin) Precision Industry Co., Ltd. and 富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd., for identification purposes only) respectively. Mr. Meng was a non-executive director of BFIH during the period from 10 June 2022 to 3 February 2023. He has gained over 30 years of extensive experience in factory operation management as well as resources integration and optimisation. Since 2010, Mr. Meng has been independently in-charge of business unit management operations and led and developed OEM (Original Equipment Manufacturing) business with some of the world's leading customers and overseas markets. During his tenure, he has developed and earned a high degree of trust with the Group's customers and partners, especially functioning as a pivotal strategic partner of customers in cross-region resources integration, production, efficiency enhancement, cost and inventory reduction, Industry 4.0 (the fourth industrial revolution) smart factory and other projects. Besides, the performance of the business unit led by Mr. Meng has been highly appreciated and awarded the Group's Best Business Performance for three consecutive years. Mr. Meng graduated from the Taiwan Zhonghua Senior High School in 1984.

LIN Chia-Yi (also known as Charles LIN) (Mr.), Chinese (Taiwan) and aged 52, has been appointed as an executive director of the Company with immediate effect from 10 March 2023. Mr. Lin has over 26 years of experience in communication and computer industries. He is the vice president of the Group, who is mainly responsible for the profit and loss of IDM1 (Innovation, Design, Manufacture) business unit, implementing management by objectives and maintaining customer satisfaction, improving gross profit margin and operating margin and developing core technologies as the primary objectives. Mr. Lin is a director of CMCS and Executar International Limited, both being subsidiaries of the Company. Mr. Lin is expertized in the field of premium Smartphone (SP) and interrelated mobile devices and leads the business development, research and development (R&D) engineering, new product introduction (NPI) and manufacturing teams, to provide solid NPI services as well as manufacturing and delivery services to customers. Through performing his roles and functions within the Group, Mr. Lin has accumulated years of experience and competitive advantages in SP design, antenna, mechanical engineering, software development and testing tool development, and is dedicated to realize successful products to customers. In addition, Mr. Lin is currently leading the team in building artificial intelligent core technology based on current core technologies, and has been actively participating in the Group "3+3" (three key industries "electric vehicles, digital health, and robotics industries" and three key technologies "artificial intelligence, semiconductors and next-generation communication technologies") strategy's new business development in robotics segment as an upfront investment for its long-term development. He joined the Group in 2005 and was in charge of the original design manufacturing (ODM) business operation when the Group acquired CMCS. Mr. Lin has led the team to transform feature phone ODM business to SP ODM business successfully in 2012. Furthermore, he has performed multi-functional roles across business operation, R&D engineering, NPI engineering, and manufacturing and built highly trusted partnerships with customers in launching a series of premium SP products since 2017. Before joining the Company, Mr. Lin was the product manager of BenQ (formerly known as Acer Communications and Multimedia, Inc. ("Acer")) and Quanta Computer Inc. from 1996 to 2001. He also worked with Acer as a strategic sourcing officer in which he had been delegated to Netherlands for 2 years and leading of the procurement management team. Mr. Lin joined CMCS in 2001, mainly responsible for product management. Mr. Lin obtained a master's degree in business (MBA) from National Taiwan University in 1994 and a bachelor's degree in marine environmental engineering from National Sun Yat-sen University in 1992.

LAU Siu Ki (Mr.), Chinese (Hong Kong) and aged 64, joined the Company as an independent non-executive director in December 2004. He is the chairman of the audit committee, remuneration committee and nomination committee respectively of the Company. He has over 40 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing. Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. Mr. Lau was a member of the World Council of ACCA from 2002 to 2011 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. He serves as an independent non-executive director of Binhai Investment Company Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Samson Holding Ltd., TCL Electronics Holdings Limited and IVD Medical Holding Limited, whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lau also serves as company secretary of Yeebo (International Holdings) Limited, Hung Fook Tong Group Holdings Limited and Expert Systems Holdings Limited (whose shares are listed on the Stock Exchange). On 31 October 2019, the Securities and Futures Commission (the "SFC") announced that it had started Market Misconduct Tribunal ("MMT") proceedings against China Medical & Healthcare Group Limited ("CMHGL") and six individuals who were CMHGL directors at the relevant time, including Mr. Lau, for failing to disclose inside information as soon as reasonably practicable. On 12 May 2021, the SFC announced the conclusion of those proceedings and the MMT's findings, including those against Mr. Lau. The Company carefully assessed the MMT's findings, and concluded that it remained in the Company's best interests to retain Mr. Lau as an independent non-executive director and as chairman of its audit, remuneration and nomination and independent board committees. Please see the Company's announcements of 12 and 20 May 2021 and page 119 of the Company's 2021 interim report (as issued and published on 15 September 2021) for further details of the Company's assessment.

Dr. Daniel Joseph MEHAN (Mr.), American and aged 78, joined the Company as an independent non-executive director in July 2007. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. He was the chief information officer of the Federal Aviation Administration from 1999 to 2005. Prior to that, Dr. Mehan was senior level executive who held a variety of leadership positions at AT&T for over 20 years, including international vice president and international chief information officer. Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development. Dr. Mehan received both his Ph.D. in Operations Research and Master of Science in Systems Engineering from University of Pennsylvania, U.S.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

TAO Yun Chih (Mr.), Chinese (Taiwan) and aged 48, joined the Company as an independent non-executive director on 9 March 2017. He is a member of the audit committee, remuneration committee and nomination committee respectively of the Company. Mr. Tao is a partner of DMC & Partners Consulting Co., which focus on providing digital transformation consulting services to traditional business owners, with effect from 1 December 2017. Mr. Tao had been appointed as a chairman of Pocket Securities Co., Ltd. (a stock broker firm in Taiwan) with effect from 20 October 2022. He is a director of EasyCard Corporation (a company providing contactless smartcard payment system (EasyCard) service in Taiwan) and a director of GLOBAL MALL CO., LTD. (a company operating a chain of one-stop shopping malls in Taiwan). Mr. Tao is also an independent director of Grand Hall Enterprise Co., Ltd. whose shares are listed on the Taipei Exchange. He was a consultant of XRSPACE, which is a social reality XR (Cross Reality) platform start-up, during the period from 18 February 2021 to 30 April 2021, and before that, he was the president of XRSPACE during the period from 1 April 2020 to 17 February 2021. Before joining XRSPACE, he had served in various start-ups in telecommunications, entertainment and internet industries, including his roles as the general manager of Circles Life Taiwan (a global telecommunications start-up with headquarters in Singapore) during the period from 13 January 2020 to 20 March 2020. Before joining the Company, he was the general manager of LINE Taiwan as well as the director and general manager of LINE PAY Taiwan (both belonging to the South Korean internet search giant whose business is mainly associated with the development of mobile applications and internet services). He has over 20 years of experience in start-up, growth, management and consulting, and particularly deep insights in internet development, mobile application industry, emerging market evangelism, and digital trend. Mr. Tao received a Bachelor of Science degree in Physics from National Taiwan University, Taiwan in 1996 and a Master of Science degree in Environmental Engineering from National Taiwan University, Taiwan in 1998.

SENIOR MANAGEMENT

HSIUNG Nai-Pin, Paul (Mr.), Chinese (Taiwan with U.S. nationality) and aged 58, joined the Company as director of business development in January 2003. He is responsible for operations in America region including production, logistics and after-market service since 2012. Prior to that, Mr. Hsiung held various functions and positions in mobile phone industry with the Company. From 2003 to 2008, he was responsible for business development and project management in Florida, U.S. From 2009 to 2012, he was responsible for mobile phone design and development in Florida, U.S., and also product manufacturing at Langfang, China. Before joining the Company, Mr. Hsiung was a director at Test Research, Inc. (a Taiwan listed company) for 8 years and responsible for international sales and marketing. Mr. Hsiung was a director of iCare Diagnostics, Inc. and DirectMDx, Inc. (both of which are incorporated in Delaware, U.S.) between 28 December 2020 and 20 January 2021 respectively. Mr. Hsiung is also a director of certain subsidiaries of the Company, namely Excel Loyal International Limited, FIH Mexico Industry SA de CV, Prospect Right Limited, S&B Industry, Inc., SP International, Inc. and Sutech Holdings Limited respectively. He was a director of FIH (Tian Jin) Precision Industry Co., Ltd. (a subsidiary of the Company incorporated in China) from June 2011 to November 2021. He obtained a Bachelor degree of Applied Physics from Tamkang University, Taiwan and a Master degree of Computer Science from New York Institute of Technology, U.S.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

TAM Kam Wah, Danny (Mr.), Chinese (Hong Kong with British nationality) and aged 59, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief financial officer of the Company. He is responsible for accounting and internal and external financial reporting, financial planning, taxation, investment management, internal control, investor relations, corporate governance, risk management and performance review of the Group. He is a non-executive director of Mobile Drive Netherlands and a non-executive director of BFIH. Mr. Tam has over 35 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd. (now known as China Oceanwide Holdings Limited) and he also worked as an accounting manager for Coates Brothers (HK) Co., Ltd. Mr. Tam is a fellow of the Taxation Institute of Hong Kong and an associate of Hong Kong Institute of Certified Public Accountants. He is also a certified tax adviser. Mr. Tam received a BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University, the People's Republic of China in 2005.

CHEN Hui Chung, John (Mr.), Chinese (Taiwan) and aged 61, joined the Company as senior director of finance division in August 2013. He is responsible for treasury, financial investment and financial risk management of the Group. Mr. Chen has over 33 years of experience in finance areas in Taiwan listed companies. Before joining the Company, he was the chief financial officer of Taiwan Synthetic Rubber Corp and Wan Hai Lines Ltd. respectively. Mr. Chen is a non-executive director of BFIH and a director of FIH Co., Ltd., both being subsidiaries of the Company. He received a Bachelor of Transportation and Communication from National Cheng Kung University, Taiwan in 1983 and a MBA from University of California Irvine, U.S. in 1987.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") hereby announces the annual report incorporating this report of the directors, particularly the audited consolidated results of the Group for the year ended 31 December 2022 (the "current period", "reporting year" or "current year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the principal subsidiaries are set out in the consolidated financial statements on pages 231 and 232. The Group is principally engaged as a vertically integrated manufacturing services provider for the handset industry worldwide. It provides a wide range of manufacturing services to its customers in connection with the production of handsets. For more details, please refer to the "Business Review — Discussion and Analysis — Introduction" section below.

RESULTS

The results of the Group for the current period are set out in the consolidated financial statements on page 147.

BUSINESS REVIEW

Important

The consolidated final results of the Group for the current period as set out in this report 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 People's Republic of China ("China" or the "PRC") and Vietnam and Taiwan) in the first quarter of each year which is generally a low season post-Chinese New Year for the industry in which the Group operates, the Group's performance in the first quarter is usually worse and not comprehensive and representative, compared with that in the other quarters.

The Company refers to its announcements of 11 May 2022, 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 report 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 (the "Listing Rules") and the Securities and Futures Ordinance (Charter 571 of the Laws of Hong Kong) (the "SFO").

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

Discussion and Analysis

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (and together with its subsidiaries and associates (as defined in the Listing Rules, the "Hon Hai Technology Group"; Hon Hai is a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation), and a leader in the handset industry worldwide providing leading-edge manufacturing technology and vertically integrated manufacturing services and product development services to its customers with improved product quality, increased flexibility, faster volume to market and time to market, and overall value. The Company offers solutions that span from initial design and product development through ramp-up and volume manufacturing and this business model offers a comprehensive range of end-to-end manufacturing and engineering services to its customers tailored to meet specific market and customer product lifecycle requirements in respect of handsets and other wireless communication devices and consumer electronic products and this full range and wide array of capabilities provide our customers with expertise across the entire value chain. The products and services include unique and innovative product development and design, casings (including casings sold to customers and casings used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly, supply chain services and solutions, and repair and refurbishment and other after-sales services which are located close to the customers. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as eReaders, tablets, and voice interaction products like smart speakers. Within design and development, the Group provides customers with a broad spectrum of OEM (Original Equipment Manufacturing) and ODM (Original Design Manufacturing) capabilities and our strength lies in delivering product and software development and manufacturing solutions of high complexity that require strong engineering and technical and design proficiency. The Group's ODM offering includes developing hardware and software platforms and design solutions in collaboration with customers, as well as management of the program's design and development and aspects of the supply chain and manufacturing and cost optimisation. 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 Global Oy ("HMD") to control credit exposure and made adequate expected credit loss allowances in the book to reflect the collection and default risks.

As long-term partnerships and relationships have been established with customers, the Group is able to communicate effectively with the customers and accelerate manufacturing while meeting delivery, specifications and quality requirements from customers. At the same time, the Group has been consistently putting effort on improving operation management, cost effectiveness, process and efficiency optimisation, quick response manufacturing, lean manufacturing, quality management, 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 Renminbi ("RMB") 3,000 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 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 2022 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

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 2022 corporate governance report, which forms part of the annual report incorporating this report of the directors. 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 a share scheme of the Company (the "Existing Share Scheme") and a share option scheme of the Company (the "Existing 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 Existing Share Option Scheme complies with the requirements of the pre-existing Chapter 17 of the Listing Rules (being the past version effective up to 31 December 2022). Employees also enjoy insurance coverage provided by the Group. The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Directors' Remuneration Policy of the Company as amended from time to time (for details, please refer to the "Remuneration Committee — Directors' Remuneration Policy" section of the Company's 2022 corporate governance report, forming part of the Company's 2022 annual report incorporating this report of the directors) 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 2022 environmental, social and governance report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

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 its shareholders with an assured entitlement to the equity shares of BFIH pursuant to the Proposed Spin-off due to the legal restrictions and practical difficulties involved) and subject to the Proposed Spin-off being completed, the Company proposed to pay a special cash dividend to the shareholders of the Company of an aggregate amount which 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 5 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 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.

Investments

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 2022 ESG report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

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 Indian Rupee ("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. Please also refer to note 33 to the consolidated financial statements.

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 2022 corporate governance report, which forms part of the annual report incorporating this report of the directors.

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.

Environmental Policies and Performance

During the current period, the ESG Committee, also known as the Sustainability Committee, was established and has been operated under the authority of the Company's Chief Executive Officer. The principal duties of the ESG Committee are to monitor ESG-related performance, strategies, policies, targets, regulations and annual progress of the Group; to establish and implement the Group's ESG-related development plan which is integrated with its operational strategy; to monitor the communications with stakeholders, and coordinate resources integration among the ESG Committee, internal business units and functional units; and to report ESG-related matters to the Board annually. For details, please refer to the Company's separate 2022 ESG report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

The Group's business strategy is firmly grounded on values of sustainable development as awareness of environmental and social issues arise on a global agenda, including customers' decarbonisation pledges and requests in the supply chain. A robust corporate governance framework is essential to drive sustainable initiatives whilst taking the interests of all significant internal and external stakeholders, namely employees, customers, suppliers, shareholders/investors, government, non-governmental organisations/charities and media into account. The Group actively responds to the United Nations Sustainable Development Goals. To achieve sustainable management, the Group continues to establish ESG development strategies and plans, as well as improve and deepen specific targets in the three primary areas of Environment, Social and Governance.

As a member of the Hon Hai Technology Group, the Group's operations are guided by the Hon Hai Technology Group's Corporate Social Responsibility ("CSR") Global Code of Conduct Policy ("CSR CoC"), which incorporates international initiatives, including policies relating to ethics, labour and human rights, health and safety, environment, management systems, responsible sourcing of minerals, anti-corruption as well as anti-trafficked and forced labour.

Environmental sustainability is a top priority for the Group. The Group has taken a systematic approach to integrating green and sustainable practices into its operations, implementing measures in the areas of environmental-friendly product design, greenhouse gas ("GHG") emission reduction, process management, energy and resource management and supply chain management to minimise the negative impact of the Group's operations on the environment and natural resources, with the objectives of meeting international standards laid down by the ISO14001 environmental management system and the European Eco-Management and Audit Scheme.

In this regard, the Group proactively monitors the following key areas: energy management and GHG emission reduction, air pollution control, water treatment and utilisation, and waste management, to ensure that the Group's operations are in accordance with the CSR CoC. The CSR CoC aligns with the Hon Hai Technology Group's environmental stewardship and regulation that work towards environmental sustainability.

The Group has set up specialised divisions to study the environmental requirements of regulators, customers, industry and other key stakeholders, including compliance with the "Product Quality Law of the People's Republic of China", the European Union's "Restriction on Hazardous Substances Directive" (RoHS) and the European Union's Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation, restrictions on the use of conflict minerals as well as Halogen-Free (HF) certifications and GHG emission reduction expectations. The results of these efforts are translated into actionable internal measures that can be integrated and applied within the Group's operations. The Group has established specific CSR-related policies and guidelines which are closely enforced throughout its supply chain, including procurement process, production process and delivery process.

The Group strives to meet its energy-efficiency targets, which are communicated to the Group's business units and relative departments. The Group actively promotes energy efficiency management and renewable energy utilisation and hence corresponding GHG emission reductions through policies, systems and measures, including the implementation and maintenance of the ISO50001 energy management system which drives progress using the model of continual improvement, and leverage on a variety of energy-saving and GHG emission reduction technologies. The Group's suppliers are required to adhere to the Group's GHG emission reduction policies and to implement systems to monitor GHG emissions at the organisational and product levels.

The Group closely controls and monitors any air pollutants which may be generated during the manufacturing and transportation processes. The functioning of air pollutant emission systems is also under routine examination. The Group actively promotes the reduction and reuse of wastewater and adopts the use of reclaimed water throughout its production lines in order to reduce the environmental impact of manufacturing. Wastewater is closely monitored and controlled before discharge, and the functioning of wastewater handling systems is also under routine examination while industrial wastewater is treated with a vacuum distillation system. In accordance with the Group's solid waste management principles, solid wastes as well as chemicals and hazardous items should be differentiated, controlled, reduced, disposed of, transported, stored and recycled. All relevant waste is treated and disposed of in compliance with relevant environmental laws and regulations. The Group works to maximise waste recycling, and leverages design and technology to transform waste into usable resource inputs.

During the current period, the Group had successfully achieved the four annual targets set in 2021 in respect of electricity consumption reduction, GHG emissions reduction, food waste conversion and water consumption reduction respectively.

In addition, the Group is committed to addressing the challenges and opportunities posed by climate change, mitigating the associated physical and transition risks. The Group has been identifying, evaluating, managing, and mitigating the significant climate-related risks to which the Group is exposed, together with their potential impacts on the Group and its operations at an acceptable level, as well as devising, formulating and implementing the Group's responsive strategies and measures. The Group highlights the signification of climate-related risk assessment and management to enhance business resilience. Also, the Group is making strides towards its climate targets to pave the way for a future of low-carbon economies, and continues to advance its energy and carbon reduction measures for mitigation of climate change impacts, thereby achieving its responsibilities of protecting the environment and caring for the planet as it exerts influence on global industrial chains.

As a result of the Group's efforts, the Group has made the following achievements: (a) the Group received EcoVadis 2022 bronze medal, ranking the top 13% in the communication equipment manufacturing industry on the "environment" theme; (b) the Group was rated as "low risk" (12.1) in 2022 Sustainalytics ESG Risk Rating, in particular, ranking the top 5% in the global universe, and the top 13% in the technology hardware industry; (c) the Longhua factory in the PRC (one of the Group's core operational factories) obtained the UL 2799 "Gold Level Certification" for the "Zero Waste to Landfill" efforts during the current period; (d) the Group's major factories in the PRC, India, Vietnam, the U.S., Mexico and Taiwan obtained ISO14064 (GHG emissions inventory) certifications during the current period; and (e) all of the Group's factories have attained the ISO14001 (environmental management system) certifications, and the Group's major factories have attained the ISO50001 (energy management system) certifications. It follows that implementation and operation of the Group's energy management and environmental management systems have contributed to reduction of the negative impacts on the environment, whilst at the same time enhancing the Group's operational efficiency.

RESERVES

Movements in reserves of the Group during the current period are set out on page 150.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves available for distribution amounted to approximately US$1,432,016,000.

SHARE CAPITAL

Details of movements in share capital during the current period are set out in note 25 to the consolidated financial statements.

During the current period and up to the date of this report of the directors, 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. 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 all cases in accordance with the articles of association of the Company in force for the time being (the "Articles"). For details, please refer to the section headed "Purchase, Redemption or Sale of Listed Securities of the Company" below.

Further, no shares of the Company were allotted or issued during the current period.

FINANCIAL SUMMARY

A financial summary of the results of the Group for the last five financial years is set out on page 235.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group during the current period are set out in notes 13 and 15 to the consolidated financial statements, respectively.

BANK LOANS

Details of bank loans are set out in note 24 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the current period and up to the date of this report of the directors are:

Executive Directors

CHIH Yu Yang
KUO Wen-Yi
MENG Hsiao-Yi (resigned with effect from 10 March 2023)
LIN Chia-Yi (also known as Charles LIN) (appointed with immediate effect from 10 March 2023)

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
TAO Yun Chih

Having received written confirmations from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Listing Rules, the Company considers each independent non-executive director to be independent. For details, please refer to the "Independent Non-executive Directors" section of the Company's 2022 corporate governance report, which forms part of the annual report incorporating this report of the directors.

For more details, please refer to the "Other Information — Directors" section of the Company's 2022 interim report as issued and published on 15 September 2022.

Pursuant to the approval of the Board on 10 March 2023, LIN Chia-Yi (also known as Charles LIN) ("Mr. Lin") was appointed as an executive director of the Company for a term of not more than 3 years commencing from 10 March 2023 and ending upon the conclusion of the relevant general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles. He has entered into a letter of appointment with the Company and is entitled to an annual emolument package (consisting of basic salary of US$137,118 and a discretionary bonus) determined by the Board from time to time in accordance with the Director's Remuneration Policy adopted by the Board (as amended from time to time). Please refer to the Company's announcement on change of directors dated 10 March 2023 for details.

Pursuant to article 95 of the Articles, Mr. Lin was appointed as an executive director with immediate effect from 10 March 2023 to fill a casual vacancy on the Board and, being eligible, will offer himself for re-election at the Company's forthcoming annual general meeting scheduled to be held on 19 May 2023 (the "2023 AGM").

Pursuant to article 112 of the Articles, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles and as disclosed in the Company's announcement on change of directors dated 10 March 2023, Mr. TAO Yun Chih ("Mr. Tao") will retire from office by rotation at the 2023 AGM, and he, although being eligible, will not offer himself for re-election and will retire as an independent non-executive director of the Company after the conclusion of the 2023 AGM and accordingly cease to act as a member of each of the audit committee, remuneration committee and nomination committee of the Company, in order to devote more time and attention to his existing and potential roles and positions with other business commitments and further developments. Mr. Tao has confirmed that he has no disagreement with the Board and there is no other matter relating to his retirement that needs to be brought to the attention of the shareholders of the Company.

Mr. Meng Hsiao-Yi ("Mr. Meng") resigned as an executive director of the Company and the chief operating officer of the Company in order to pursue his career development with effect from 10 March 2023. However, Mr. Meng would remain as a director of certain subsidiaries of the Company until the effective dates on which the nominated replacement directors could take up such directorships. Mr. Meng has confirmed that he has no disagreement with the Board and there is no other matter relating to his resignation that needs to be bought to the attention of the shareholders of the Company.

Ms. CHEN Shu Chuan (also known as Nadia CHEN) ("Ms. Chen") will, subject to the approval of the Company's shareholders, be appointed as an independent non-executive director of the Company and a member of each of the audit committee, remuneration committee and nomination committee of the Company, with effect from the conclusion of the 2023 AGM. Please refer to the Company's announcement on change of directors dated 10 March 2023 for details.

Pursuant to the approval of the Board on 2 November 2022 and the subsequent finalisation by the Board's delegate, the Company granted 7,448,142 shares and 2,576,062 shares to Mr. CHIH Yu Yang ("Mr. Chih") and Mr. Meng respectively under the share scheme of the Company adopted by the Board on 17 October 2013 and approved by the shareholders of the Company on 26 November 2013 (the "Existing Share Scheme"). Pursuant to the approval of the Board on 10 March 2023 and the subsequent finalisation by the Board's delegate, the Company granted 1,697,181 shares and 1,171,972 shares to Mr. Chih and Mr. Lin respectively under the Existing Share Scheme. Please refer to the Company's announcement dated 13 March 2023 for details.

For details of the directors' remuneration and expense allowances for the current period, please refer to note 8 to the consolidated financial statements.

SERVICE CONTRACTS

None of the directors of the Company has entered into a service contract with the Company which has not expired and which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its holding company or any subsidiary of the Company's holding company was a party and in which a director of the Company or an entity connected with a director of the Company (as defined in Section 486 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the current period.

PERMITTED INDEMNITY PROVISION

Article 175 of the Articles provides that: (i) every director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgement is given in his/her favour, or in which he/she is acquitted; and (ii) subject to the Companies Act of the Cayman Islands (as amended from time to time), if any director of the Company or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the director or person so becoming liable as aforesaid from any loss in respect of such liability. Such permitted indemnity provision is in force during the current period and at the time of approval of this report of the directors.

DISCLOSURE OF INTERESTS

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

As at 31 December 2022, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
CHIH Yu Yang (also acting as the chief executive officer)	The Company	Beneficial owner	34,334,018	0.4325%
	CMCS *(Note 1)*	Beneficial owner	1,000	0.0007%
	BFIH	Other	1 *(Note 2)*	0.00000004%
KUO Wen-Yi	The Company	Interest of spouse	700,000	0.0088%
	Hon Hai	Beneficial owner	1,848	0.00001%
	Hon Hai	Interest of spouse	13	0.0000001%
MENG Hsiao-Yi (also acting as the chief operating officer) (resigned with effect from 10 March 2023)	The Company	Beneficial owner	5,469,146	0.0689%
	BFIH	Other	1 *(Note 2)*	0.00000004%

Notes:

1. The Company indirectly, through its wholly-owned subsidiaries, holds approximately 87.06% of the entire number of issued shares of CMCS, a company incorporated in Taiwan.

2. Each of Mr. Chih and Mr. Meng holds 1 share of BFIH as a nominee shareholder on behalf of Wonderful Stars Pte. Ltd. (an indirectly wholly-owned subsidiary of the Company) without any beneficial interest.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2022, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any director of the Company, as at 31 December 2022, shareholders (other than the directors or chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited (Note 1)	Beneficial owner	5,081,034,525	64.00%
Hon Hai (Notes 1 and 2)	Interest of a controlled corporation	5,081,034,525	64.00%

Notes:

1. Foxconn (Far East) Limited is a direct wholly-owned subsidiary of Hon Hai, and therefore, Hon Hai is deemed or taken to be interested in the 5,081,034,525 shares which are beneficially owned by Foxconn (Far East) Limited for the purposes of the SFO.

2. Mr. Chih, the acting chairman and an executive director of the Company, is a director of a subsidiary and an associate of Hon Hai. In addition, Dr. KUO Wen-Yi, an executive director of the Company, has been discussing some proposed arrangements with the Hon Hai Technology Group.

Save as disclosed above, as at 31 December 2022, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration paid/payable to the three members of senior management of the Company (whose biographical details are disclosed in "Profile of Directors and Senior Management" set forth in the annual report incorporating this report of the directors) during the current period was within the following bands:

	Number of senior management
HK$1,500,001 to HK$2,000,000	1
HK$2,000,001 to HK$2,500,000	2
	3

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions not falling under Rule 14A.76(1) of the Listing Rules as undertaken by the Group during the current period are summarised as follows:

For more details, please refer to the Company's announcements relating to continuing connected transactions dated 9 October 2019, 29 October 2019, 7 August 2020 and 10 November 2022 respectively, circulars relating to continuing connected transactions dated 14 November 2019, 28 August 2020 and 1 December 2022 respectively, and announcements dated 6 December 2019, 18 September 2020 and 23 December 2022 respectively relating to poll results of the extraordinary general meetings.

Purchase Transaction

Pursuant to the framework product supply agreement (formerly known as the framework materials and components supply agreement) entered into among the Company, Hon Hai, Innolux Corporation (formerly known as Innolux Display Corporation and then Chimei Innolux Corporation, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) and 鴻準精密工業股份有限公司 (Foxconn Technology Co. Ltd., for identification purposes only, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) (both being associates of Hon Hai at the relevant times) on 19 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016, 31 July 2017 and 9 October 2019) (the "Purchase Agreement"), the Group has purchased from the Hon Hai Technology Group from time to time for a term up to 31 December 2022 products (including but not limited to materials and components, tooling, light-guides and finished goods generally) manufactured, owned or held (coupled with interest) by the Hon Hai Technology Group that may be used in connection with or for the purposes of the businesses of the Group from time to time as well as such other products (including but not limited to any materials and components) as may be agreed between the Group and the Hon Hai Technology Group from time to time upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) in respect of purchases from a supplier of materials, components and other products that may be used in the businesses of the Group from time to time as approved by the Group's customer (the "Approved Vendor"), at the price agreed between the supplier and the Group's customer; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Purchase Agreement (the "Purchase Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Purchase Transaction for the three years ended 31 December 2022.

Hon Hai is the leading player in the computer, communication and consumer electronics ("3C") manufacturing services industry. Under the convergence trend of the 3C industries, an increasing number of types of materials, components and other products manufactured by the Hon Hai Technology Group are used for the manufacture of consumer electronic products, in particular handsets. The Company believes that it is an important competitive advantage of the Group that the Group together with the members of the Hon Hai Technology Group can provide a wide range of vertically integrated manufacturing services to the customers.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the Purchase Agreement (the "Supplemental Purchase Agreement"), which would become effective only after passing the resolutions in respect of the Supplemental Purchase Agreement by the Company's shareholders other than Hon Hai and its associates (as defined in the Listing Rules) (the "Independent Shareholders"), to extend the current term of the Purchase Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also proposed annual caps for the Purchase Transaction for the three years ending 31 December 2025 at US$1,611 million for 2023, US$1,964 million for 2024 and US$2,395 million for 2025, which were determined mainly with reference to the following major factors:

(a) the historical transaction amount of the Purchase Transaction for the year ended 31 December 2021;

(b) the historical annual growth rate of the Purchase Transaction for the year ended 31 December 2021;

(c) the anticipated increase in the amount of the Purchase Transaction to continue with reference to the growth in the amount of the Purchase Transaction for the year ended 31 December 2021, having regard to the continuous opening up and emergence from the COVID-19 pandemic in the PRC and the rest of the world; and

(d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2025 for the Purchase Transaction, the Purchase Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Purchase Transaction, the Supplemental Purchase Agreement and the proposed annual caps for the three years ending 31 December 2025 were subject to the approval of the Independent Shareholders. On 23 December 2022, the Purchase Transaction, the Supplemental Purchase Agreement and the relevant proposed annual caps for the three years ending 31 December 2025 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Product Sales Transaction

Pursuant to the framework product sales agreement entered into among the Company, Hon Hai and Innolux Corporation (an associate of Hon Hai at the relevant times formerly known as Innolux Display Corporation and then Chimei Innolux Corporation, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hoi) on 18 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016 and 9 October 2019) (the "Framework Product Sales Agreement"), the Group has sold to the Hon Hai Technology Group from time to time for a term up to 31 December 2022 products (including but not limited to materials and components, tooling, light-guides and finished goods generally) manufactured, owned or held (coupled with interest) by the Group that may be used in connection with or for the purposes of the businesses of the Hon Hai Technology Group from time to time as well as such other products (including but not limited to any materials and components) as may be agreed between the Group and the Hon Hai Technology Group from time to time upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Technology Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Product Sales Agreement (the "Product Sales Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Product Sales Transaction for the three years ended 31 December 2022.

The Company considers it in its best interests to generate more income as well as enhance utilisation of its assets by carrying out the Product Sales Transaction in response to the Hon Hai Technology Group's needs from time to time, provided that the Hon Hai Technology Group purchases from the Group at prices comparable to market prices and/or which are considered to be fair and reasonable to the Company.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the Framework Product Sales Agreement (the "Supplemental Product Sales Agreement"), which would become effective only after passing the resolutions in respect of the Supplemental Product Sales Agreement by the Independent Shareholders, to extend the current term of the Framework Product Sales Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also proposed annual caps for the Product Sales Transaction for the three years ending 31 December 2025 at US$3,813 million for 2023, US$4,381 million for 2024 and US$5,034 million for 2025, which were determined mainly with reference to the following major factors:

(a) the historical transaction amount of the Product Sales Transaction for the year ended 31 December 2021;

(b) the historical annual growth rate of the Product Sales Transaction for the year ended 31 December 2021;

(c) the anticipated increase in the amount of the Product Sales Transaction to continue with reference to the growth in the amount of the Product Sales Transaction for the year ended 31 December 2021, having regard to the continuous opening up and emergence from the COVID-19 pandemic in the PRC and the rest of the world; and

(d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2025 for the Product Sales Transaction, the Product Sales Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Product Sales Transaction, the Supplemental Product Sales Agreement and the proposed annual caps for the three years ending 31 December 2025 were subject to the approval of the Independent Shareholders. On 23 December 2022, the Product Sales Transaction, the Supplemental Product Sales Agreement and the relevant proposed annual caps for the three years ending 31 December 2025 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Non-real Property Lease Expense Transaction

Pursuant to the framework lease agreement relating to movable non-real properties dated 13 June 2013 (as amended by the respective supplemental agreements dated 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Framework Non-real Property Lease Expense Agreement"), the Group has leased movable non-real properties such as equipment and machines (the "Non-real Properties") from the Hon Hai Technology Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) the rental payable by the Group under the transactions contemplated under the Framework Non-real Property Lease Expense Agreement (the "Non-real Property Lease Expense Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar properties in the market; or

(b) if the average market rental is not available, the rental payable under the Non-real Property Lease Expense Transaction shall be determined on a "cost plus" basis; or

(c) if both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Non-real Property Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Non-real Property Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Non-real Property Lease Expense Transaction for the three years ended 31 December 2022.

In carrying out the Group's manufacturing operations, the Group may require the use of the Non-real Properties (including but not limited to specialised equipment and machines). By leasing such Non-real Properties from the Hon Hai Technology Group, the Group may gain access to the use of such Non-real Properties at rental rates agreeable to the Company saving capital expenditures.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the Non-real Property Lease Expense Agreement (the "Supplemental Non-real Property Lease Expense Agreement"), to extend the current term of the Non-real Property Lease Expense Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also set annual caps for the Non-real Property Lease Expense Transaction for the three years ending 31 December 2025 at US$12 million for 2023, US$12 million for 2024 and US$12 million for 2025, which were determined mainly with reference to the following major factors:

(a) the average annual historical transaction amount of the Non-real Property Lease Expense Transaction during the three years ended 31 December 2021; and

(b) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the annual caps for the three years ending 31 December 2025 for the Non-real Property Lease Expense Transaction, the Non-real Property Lease Expense Transaction, the Supplemental Non-real Property Lease Expense Agreement and the annual caps for the three years ending 31 December 2025 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements under the Listing Rules. On 10 November 2022, the Company published the relevant announcement.

Consolidated Services and Sub-contracting Expense Transaction

Pursuant to the framework consolidated services and sub-contracting agreement entered into among the Company, Hon Hai, PCE Industry Inc. (a former subsidiary of Hon Hai which had been dissolved) and Sutech Industry Inc. (a former subsidiary of the Company which had been dissolved) on 24 October 2007, pursuant to which (among other things) all respective rights, obligations and liabilities of PCE Industry Inc. and Sutech Industry Inc. thereunder were assumed and taken up by Hon Hai and the Company respectively (as amended by the respective supplemental agreements between the Company and Hon Hai dated 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) (the "Consolidated Services and Sub-contracting Expense Agreement"), the Hon Hai Technology Group has provided services (including research and development services, design services, repair services and sub-contracting services) to the Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where the Hon Hai Technology Group has been approved or otherwise designated by the relevant customers of the Group, at the price agreed between the Hon Hai Technology Group and such customers; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement (the "Consolidated Services and Sub-contracting Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Consolidated Services and Sub-contracting Expense Transaction for the three years ended 31 December 2022.

The Company considers that the services provided by the Hon Hai Technology Group under the Consolidated Services and Sub-contracting Expense Transaction as requested by the Group can enhance the Group's handset manufacturing capabilities and related capacity in its handset manufacturing business, provide the Group with greater flexibility in capacity planning and allow the Group to carry on its business more efficiently.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the Consolidated Services and Sub-contracting Expense Agreement (the "Supplemental Consolidated Services and Sub-contracting Expense Agreement"), which would become effective only after passing the resolutions in respect of the Supplemental Consolidated Services and Sub-contracting Expense Agreement by the Independent Shareholders, to extend the current term of the Consolidated Services and Sub-contracting Expense Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also proposed annual caps for the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2025 at US$204 million for 2023, US$204 million for 2024 and US$204 million for 2025, which were determined mainly with reference to the following major factors:

(a) the average annual historical transaction amount of the Consolidated Services and Sub-contracting Expense Transaction during the three years ended 31 December 2021;

(b) the anticipated recovery of the amount of the Consolidated Services and Sub-contracting Expense Transaction to the level comparable to the average amount of the Consolidated Services and Sub-contracting Expense Transaction before the COVID-19 pandemic in 2019 and during the COVID-19 pandemic in 2020 and 2021, having regard to the continuous opening up and emergence from the COVID-19 pandemic in the PRC and the rest of the world; and

(c) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2025 for the Consolidated Services and Sub-contracting Expense Transaction, the Consolidated Services and Sub-contracting Expense Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Consolidated Services and Sub-contracting Expense Transaction, the Supplemental Consolidated Services and Sub-contracting Expense Agreement and the proposed annual caps for the three years ending 31 December 2025 were subject to the approval of the Independent Shareholders. On 23 December 2022, the Consolidated Services and Sub-contracting Expense Transaction, the Supplemental Consolidated Services and Sub-contracting Expense Agreement and the relevant proposed annual caps for the three years ending 31 December 2025 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Equipment Purchase Transaction

Pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Framework Equipment Purchase Agreement"), the Group has purchased from the Hon Hai Technology Group from time to time for a term up to 31 December 2022 baking and coating lines and other equipment manufactured, owned or held (coupled with interest) by the Hon Hai Technology Group which may be used in connection with or for the purposes of the Group's businesses from time to time (including but not limited to new equipment that is manufactured or purchased or procured from third parties by the Hon Hai Technology Group, and used equipment that has previously been used by the Hon Hai Technology Group) as well as such other equipment as may be agreed between the Hon Hai Technology Group and the Group from time to time upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Technology Group; or

(b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or

(c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Equipment Purchase Agreement (the "Equipment Purchase Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Purchase Transaction for the three years ended 31 December 2022.

The Hon Hai Technology Group is able to customise standard industry equipment to varying degrees to better suit the production needs of the Group. Purchasing equipment from the Hon Hai Technology Group helps shorten the lead time to deliver the equipment to the Group. The Group in the past also purchased used equipment that was in good condition from the Hon Hai Technology Group at the book value of the equipment in the Hon Hai Technology Group's accounts. It is also more convenient for the Group to obtain the required maintenance services for the customised equipment from the Hon Hai Technology Group.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the Framework Equipment Purchase Agreement (the "Supplemental Equipment Purchase Agreement"), to extend the current term of the Framework Equipment Purchase Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also set annual caps for the Equipment Purchase Transaction for the three years ending 31 December 2025 at US$24 million for 2023, US$24 million for 2024 and US$24 million for 2025, which were determined mainly with reference to the following major factors:

(a) the average annual historical transaction amount of the Equipment Purchase Transaction during the three years ended 31 December 2021; and

(b) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the annual caps for the three years ending 31 December 2025 for the Equipment Purchase Transaction, the Equipment Purchase Transaction, the Supplemental Equipment Purchase Agreement and the annual caps for the three years ending 31 December 2025 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements under the Listing Rules. On 10 November 2022, the Company published the relevant announcement.

Sub-contracting Income Transaction

Pursuant to the framework sub-contracting agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 26 July 2012, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Sub-contracting Income Agreement"), the Group has provided certain services (such as handset and in-mould labelling research and development and other research and development services; handset and other design services; handset and mould and other repair services; molding, electroplating, metal stamping for handsets and desktop computers and other services that may form part of or be provided as part of the businesses of the Hon Hai Technology Group from time to time; the use of technical equipment and facilities owned or leased by the Group to support the foregoing; the provision of personnel and other resources as may be required to support the foregoing; and such other services and/or sub-contracting as may be agreed between the Hon Hai Technology Group and the Group from time to time) to the Hon Hai Technology Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Technology Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or

(b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group upon the basis of the principle of "cost plus"; or

(c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Technology Group based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Sub-contracting Income Agreement (the "Sub-contracting Income Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Sub-contracting Income Transaction for the three years ended 31 December 2022.

The Company considers it in its best interests to generate more income as well as enhance utilisation of its assets by carrying out the Sub-contracting Income Transaction as long as the services are provided at prices that are fair and reasonable pursuant to the Sub-contracting Income Agreement.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the Sub-contracting Income Agreement (the "Supplemental Sub-contracting Income Agreement"), which would become effective only after passing the resolutions in respect of the Supplemental Sub-contracting Income Agreement by the Independent Shareholders, to extend the current term of the Sub-contracting Income Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also proposed annual caps for the Sub-contracting Income Transaction for the three years ending 31 December 2025 at US$110 million for 2023, US$137 million for 2024 and US$170 million for 2025, which were determined mainly with reference to the following major factors:

(a) the historical transaction amount of the Sub-contracting Income Transaction for the year ended 31 December 2021;

(b) the historical year-on-year growth rate of the Sub-contracting Income Transaction for the six months ended 30 June 2022 for estimating the transaction amount for the year ending 31 December 2022;

(c) the compound annual growth rate of the Sub-contracting Income Transaction during the years of 2019–2022 for estimating the annual transaction amount for each of the three years ending 31 December 2025;

(d) the anticipated increase in the amount of the Sub-contracting Income Transaction to continue with reference to the increase in the amount of the Sub-contracting Income Transaction for the six months ended 30 June 2022, as a result of the Group's continuous efforts to enhance utilisation of its production facilities generating income from the Sub-contracting Income Transaction; and

(e) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2025 for the Sub-contracting Income Transaction, the Sub-contracting Income Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Sub-contracting Income Transaction, the Supplemental Sub-contracting Income Agreement and the proposed annual caps for the three years ending 31 December 2025 were subject to the approval of the Independent Shareholders. On 23 December 2022, the Sub-contracting Income Transaction, the Supplemental Sub-contracting Income Agreement and the relevant proposed annual caps for the three years ending 31 December 2025 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

General Services Expense Transaction

Pursuant to the general services agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "General Services Expense Agreement"), the Hon Hai Technology Group has provided general administrative, support, utility and other related services to the Group from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where there is a price determined by the relevant state, at such state-determined price; or

(b) where there is no state-determined price, at the market price; or

(c) where there is no state-determined price or market price, on the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the relevant parties.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the General Services Expense Agreement (the "General Services Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the General Services Expense Transaction for the three years ended 31 December 2022.

Certain production facilities of the Group are located at premises owned and managed by the Hon Hai Technology Group and leased to the Group under the Lease Expense Transaction (as defined below). Within such premises, the Hon Hai Technology Group provides a number of general administrative, support, utility and other related services to all tenants, including the Group, which are necessary for the tenants to carry out their operations in such locations. The Company considers it more cost effective for the Group to share some other services provided by the Hon Hai Technology Group, such as product testing, specialist inspection and information technology and communication services.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the General Services Expense Agreement (the "Supplemental General Services Expense Agreement"), to extend the current term of the General Services Expense Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also set annual caps for the General Services Expense Transaction for the three years ending 31 December 2025 at US$31 million for 2023, US$34 million for 2024 and US$38 million for 2025, which were determined mainly with reference to the following major factors:

(a) the historical transaction amount of the General Services Expense Transaction for the year ended 31 December 2021;

(b) the historical year-on-year growth rate of the General Services Expense Transaction for the six months ended 30 June 2022 for estimating the annual transaction amount for each of the four years ending 31 December 2025; and

(c) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the annual caps for the three years ending 31 December 2025 for the General Services Expense Transaction, the General Services Expense Transaction, the Supplemental General Services Expense Agreement and the annual caps for the three years ending 31 December 2025 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements under the Listing Rules. On 10 November 2022, the Company published the relevant announcement.

Equipment Sale Transaction

Pursuant to the framework equipment sale agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Framework Equipment Sale Agreement"), the Group has sold to the Hon Hai Technology Group from time to time for a term up to 31 December 2022 molding equipment, baking and coating lines and other used equipment that may be manufactured, owned or held (coupled with interest) by the Group and which may be used in connection with or for the purposes of the Hon Hai Technology Group's businesses from time to time upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Group; or

(b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or

(c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Equipment Sale Agreement (the "Equipment Sale Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Sale Transaction for the three years ended 31 December 2022.

From time to time certain equipment of the Group no longer meets the production needs of the Group which may be as a result of a number of factors, such as new product specifications required by customers, capacity planning and new production arrangements. However, such equipment may be useful to the Hon Hai Technology Group for its businesses. The Group may sell such equipment to the Hon Hai Technology Group at prices the Company considers to be fair and reasonable generating more income for the Group.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the Framework Equipment Sale Agreement (the "Supplemental Equipment Sale Agreement"), which would become effective only after passing the resolutions in respect of the Supplemental Equipment Sale Agreement by the Independent Shareholders, to extend the current term of the Framework Equipment Sale Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also proposed annual caps for the Equipment Sale Transaction for the three years ending 31 December 2025 at US$34 million for 2023, US$48 million for 2024 and US$67 million for 2025, which were determined mainly with reference to the following major factors:

(a) the historical transaction amount of the Equipment Sale Transaction for the six months ended 30 June 2022;

(b) the estimated transaction amount for the six month period from 1 July 2022 to 31 December 2022 based on the historical transaction amount of the Equipment Sale Transaction for the six month period from 1 July 2021 to 31 December 2021 and the historical year-on-year growth rate of the transaction for the six months ended 31 December 2021;

(c) the transaction amounts of the Equipment Sale Transaction for each of the three years ending 31 December 2025 are estimated based on the annual growth rate of the Equipment Sale Transaction for the year ending 31 December 2022;

(d) the anticipated increase in the amount of the Equipment Sale Transaction with reference to the increase in the amounts of the Equipment Sale Transaction during the three years ended 31 December 2021, as a result of the Group's business strategy to be asset light and continuous efforts to dispose of obsolete and under-utilised equipment; and

(e) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2025 for the Equipment Sale Transaction, the Equipment Sale Transaction constituted a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Equipment Sale Transaction, the Supplemental Equipment Sale Agreement and the proposed annual caps for the three years ending 31 December 2025 were subject to the approval of the Independent Shareholders. On 23 December 2022, the Equipment Sale Transaction, the Supplemental Equipment Sale Agreement and the relevant proposed annual caps for the three years ending 31 December 2025 were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Lease Expense Transaction

Pursuant to the framework lease agreement dated 18 January 2005 between 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd., for identification purposes only) (a wholly-owned subsidiary of the Company) ("FTH", which was subsequently replaced by the Company as the party thereto) and Hon Hai (as amended by the supplemental agreement between FTH and Hon Hai dated 12 January 2006 and the respective supplemental agreements among the Company, FTH and Hon Hai dated 20 September 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016 and 9 October 2019) (the "Framework Lease Expense Agreement"), the Hon Hai Technology Group has leased premises owned by it and located worldwide to the Group from time to time as requested by the Group for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) the rental payable by the Group under the transactions contemplated under the Framework Lease Expense Agreement (the "Lease Expense Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market; or

(b) if the average market rental is not available, the rental payable under the Lease Expense Transaction shall be determined on a "cost plus" basis; or

(c) if both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Lease Expense Transaction for the three years ended 31 December 2022.

A part of the Group's operations in certain jurisdictions is located in the Hon Hai Technology Group's industrial parks in such jurisdictions in view of the benefits of locating close to the members of the Hon Hai Technology Group which possess leading capabilities and expertise amid the convergence trend within the 3C industries, and the physical proximity can lead to additional savings and efficiency to the Group if the Group's customers select these members of the Hon Hai Technology Group as the Approved Vendors.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the Framework Lease Expense Agreement (the "Supplemental Lease Expense Agreement"), to extend the current term of the Framework Lease Expense Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also set annual caps for the Lease Expense Transaction for the three years ending 31 December 2025 at US$10 million for 2023, US$10 million for 2024 and US$10 million for 2025, which were determined mainly with reference to the following major factors:

(a) the average annual historical transaction amount of the Lease Expense Transaction during the three years ended 31 December 2021; and

(b) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the annual caps for the three years ending 31 December 2025 for the Lease Expense Transaction, the Lease Expense Transaction, the Supplemental Lease Expense Agreement and the annual caps for the three years ending 31 December 2025 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements under the Listing Rules. On 10 November 2022, the Company published the relevant announcement.

Lease Income Transaction

Pursuant to the framework lease agreement dated 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) between the Company and Hon Hai (the "Framework Lease Income Agreement"), the Group has leased to the Hon Hai Technology Group premises owned by it or any part thereof located worldwide as agreed between the parties from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) the rental payable by the Hon Hai Technology Group under the transactions contemplated under the Framework Lease Income Agreement (the "Lease Income Transaction") shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market; or

(b) if the average market rental is not available, the rental payable shall be determined on a "cost plus" basis; or

(c) if both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Lease Income Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Lease Income Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Lease Income Transaction for the three years ended 31 December 2022.

The Group has its own premises (including but not limited to vacant land, bare sites, manufacturing plants, offices, buildings, structures and dormitories, and the related or ancillary facilities), and may have surplus space from time to time. The Company considers it in its best interests to lease out such surplus space and generate additional income for the Group at prices comparable to the market and/or above the costs attributable to the leased premises pursuant to the relevant agreement in respect of the Lease Income Transaction.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the Framework Lease Income Agreement (the "Supplemental Lease Income Agreement"), to extend the current term of the Framework Lease Income Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also set annual caps for the Lease Income Transaction for the three years ending 31 December 2025 at US$11 million for 2023, US$14 million for 2024 and US$18 million for 2025, which were determined mainly with reference to the following major factors:

(a) the historical transaction amount of the Lease Income Transaction for the year ended 31 December 2021;

(b) the historical annual growth rate of the Lease Income Transaction for the year ended 31 December 2021; and

(c) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the annual caps for the three years ending 31 December 2025 for the Lease Income Transaction, the Lease Income Transaction, the Supplemental Lease Income Agreement and the annual caps for the three years ending 31 December 2025 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements under the Listing Rules. On 10 November 2022, the Company published the relevant announcement.

General Services Income Transaction

Pursuant to the framework general services agreement entered into between the Company and Hon Hai on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013, 11 August 2016 and 9 October 2019) (the "General Services Income Agreement"), the Group has agreed to provide, or procure third parties to provide, to the Hon Hai Technology Group general administrative, support, utility and other services as the Group and the Hon Hai Technology Group may agree from time to time for a term up to 31 December 2022 upon and subject to the terms and conditions set out therein at a price determined as follows:

(a) where there is a price determined by the relevant government authority, at such government-determined price; or

(b) where there is no government-determined price, at the market price; or

(c) where there is no government-determined price or market price, at a price to be agreed between the parties on the basis of the principle of "cost plus"; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the relevant parties based upon reasonable commercial principles.

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the General Services Income Agreement (the "General Services Income Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the General Services Income Transaction for the three years ended 31 December 2022.

Certain production facilities of the Hon Hai Technology Group are located at premises owned and managed by the Group and leased to the Hon Hai Technology Group under the Lease Income Transaction (the lease of premises by the Group to the Hon Hai Technology Group contemplated under the Framework Lease Income Agreement). Within such premises, the Group provides a number of general administrative, support, utility and other related services to all tenants, including the Hon Hai Technology Group, which are necessary for the tenants to carry out their operations in such locations. The Hon Hai Technology Group also utilises some other services provided by the Group, such as product testing, specialist inspection and information technology and communication services. The Company considers it in its best interests to generate more income as well as enhance utilisation of its resources as long as the services are provided at prices that are considered to be fair and reasonable to the Company.

On 10 November 2022, the Company and Hon Hai entered into a supplemental agreement to the General Services Income Agreement (the "Supplemental General Services Income Agreement"), to extend the current term of the General Services Income Agreement for three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

On the same date, the Company also set annual caps for the General Services Income Transaction for the three years ending 31 December 2025 at US$3 million for 2023, US$5 million for 2024 and US$7 million for 2025, which were determined mainly with reference to the following major factors:

(a) the historical transaction amount of the General Services Income Transaction for the year ended 31 December 2021;

(b) the historical compound annual growth rate of the General Services Income Transaction during the years of 2019–2021 for estimating the annual transaction amount for each of the four years ending 31 December 2025; and

(c) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply affecting the transaction, where applicable).

Based on the maximum amount of the annual caps for the three years ending 31 December 2025 for the General Services Income Transaction, the General Services Income Transaction, the Supplemental General Services Income Agreement and the annual caps for the three years ending 31 December 2025 were exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements under the Listing Rules. On 10 November 2022, the Company published the relevant announcement.

Annual Consideration

The total consideration of each continuing connected transaction not falling under Rule 14A.76(1) of the Listing Rules as undertaken by the Group during the current period is as follows:

Continuing connected transaction	Paying group	Total consideration for the year ended 31 December 2022 (US$'000)
Purchase Transaction	Group	824,959
Product Sales Transaction	Hon Hai Technology Group	2,793,382
Non-real Property Lease Expense Transaction	Group	3,584
Consolidated Services and Sub-contracting Expense Transaction	Group	86,054
Equipment Purchase Transaction	Group	1,957
Sub-contracting Income Transaction	Hon Hai Technology Group	77,006
General Services Expense Transaction	Group	20,195
Equipment Sale Transaction	Hon Hai Technology Group	1,067
Lease Expense Transaction	Group	5,599
Lease Income Transaction	Hon Hai Technology Group	5,462
General Services Income Transaction	Hon Hai Technology Group	1,602

Annual Review

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to report on the continuing connected transactions of the Group not falling under Rule 14A.76(1) of the Listing Rules. The Company's auditor was engaged to report on such continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of such continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. The auditor has reported its findings and conclusions to the Board. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Following specific enquiries with the Company's chief financial officer (in his own capacity and on behalf of the Company's management designated for the purpose of assisting the Board with the Group's overall policies on enterprise risk management and internal controls) and the recommendation from the Company's audit committee, the independent non-executive directors of the Company have reviewed the transactions and the findings and conclusions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or better; and

3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, in respect of the continuing connected transactions of the Group for the current period not falling under Rule 14A.76(1) of the Listing Rules, the Company has followed the pricing policies set out in the relevant agreements governing them, and the independent non-executive directors of the Company have confirmed that the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with such pricing policies.

For more details, please refer to the "Accountability and Audit" section set out in the Company's 2022 corporate governance report, which forms part of the annual report incorporating this report of the directors.

The related party transactions referred to in note 35 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules, amongst which the Non-real Property Lease Income Transaction (as defined in the Company's announcement dated 10 November 2022) has constituted a *de minimis* continuing connected transaction of the Company exempt from the Independent Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules. Please refer to the Company's announcement dated 10 November 2022 for details.

For the sake of completeness, reference is made to page 105 of the Company's 2021 annual report as issued and published on 13 April 2022 where the transactions contemplated by the RSH Master Sourcing Agreement, the RSH Licence Agreement and the SMS Marketing Licence Agreement (each as defined in the Company's announcement dated 31 January 2013, constituting *de minimis* continuing connected transactions for the Company exempt from the Independent Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules) ceased to continue as such with effect from 23 January 2022.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

SHARE OPTION SCHEMES, SHARE SCHEMES AND BFIH SHARE OPTION SCHEME

Termination of Former Schemes, Adoption of Existing Schemes and Proposed Adoption of New Schemes

A former share option scheme of the Company (the "Former Share Option Scheme") and a former share scheme of the Company (the "Former Share Scheme") were adopted by the Board on 12 January 2005. The Former Share Scheme was amended by the shareholders of the Company at the extraordinary general meeting of the Company held on 4 August 2006 and by the Board at the Board meeting held on 29 October 2009.

As the Former Share Option Scheme and the Former Share Scheme were valid and effective only until (inclusive of) 2 February 2015 and considering that the permitted option period provided under the Former Share Option Scheme limited the vesting period of the options only up to 2 February 2015 (same as the expiry date of the Former Share Option Scheme) which limited the flexibility for the Board when considering the grant of options, ordinary resolutions were proposed at the Company's extraordinary general meeting held on 26 November 2013 (the "26 November 2013 EGM") to approve the adoption of a new share option scheme of the Company (the "Existing Share Option Scheme") and a new share scheme of the Company (the "Existing Share Scheme") as well as the consequential termination of the Former Share Option Scheme and the Former Share Scheme. At the 26 November 2013 EGM, ordinary resolutions were passed by the shareholders of the Company to approve the adoption of the Existing Share Option Scheme and the Existing Share Scheme as well as the consequential termination of the Former Share Option Scheme and the Former Share Scheme.

The Existing Share Option Scheme and the Existing Share Scheme shall be valid and effective for a period of 10 years from 26 November 2013 until 25 November 2023, unless otherwise terminated in accordance with their respective terms.

For the avoidance of doubt, no further options would be granted under the Former Share Option Scheme after its termination, and no further shares would be granted under the Former Share Scheme after its termination, but in all other respects, the provisions of the Former Share Option Scheme and the Former Share Scheme respectively shall remain in full force and effect. Accordingly, all options granted prior to the termination of the Former Share Option Scheme and not then exercised shall remain valid and shall continue to be subject to the provisions of the Former Share Option Scheme and Chapter 17 of the Listing Rules (being the past version effective up to 31 December 2022), and all shares granted prior to the termination of the Former Share Scheme and not then vested shall remain valid and shall continue to be subject to the provisions of the Former Share Scheme. In relation to all options granted prior to the termination of the Former Share Option Scheme and not then exercised, such options lapsed in their entirety as at 31 December 2014 and therefore there are no outstanding options granted under the Former Share Option Scheme since 1 January 2015.

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

Please also refer to note 37 to the consolidated financial statements.

In July 2022, the Stock Exchange announced amendments to the pre-existing Chapter 17 which have become effective since 1 January 2023 (the "Existing Chapter 17"). The Existing Chapter 17 applies to both the Existing Share Option Scheme and the Existing Share Scheme, subject to certain transitional arrangements. In order to ensure the continuity of a share option scheme and a share scheme for the Group to attract, reward, motivate and retain the eligible participants which will comply with the new requirements of the Existing Chapter 17, on 10 March 2023, the Board proposed to adopt a new share option scheme (the "New Share Option Scheme") and a new share scheme (the "New Share Scheme") and consequentially terminate the Existing Share Option Scheme and the Existing Share Scheme. For the purposes of compliance with the Existing Chapter 17, the proposed adoption of the New Share Option Scheme and the New Share Scheme is subject to the approval of the Company's shareholders at the 2023 AGM. Please refer to the Company's circular as issued and published simultaneously upon the issuance and publication of the Company's 2022 annual report incorporating this report of the directors. In particular, a summary of the principal terms of the New Share Option Scheme and a summary of the principal terms of the New Share Scheme are set out in the relevant appendices to the circular.

Summary of Principal Terms of Existing Share Option Scheme

The purpose of the Existing Share Option Scheme is to attract skilled and experienced personnel, to incentivise them to remain with the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

Subject to the terms of the Existing Share Option Scheme, the Board (or its duly authorised officer(s) or delegate(s)) may, at its/their absolute discretion, offer any employees, management members and directors of the Company, or any of its subsidiaries, and third party service providers, including employees of Hon Hai and its subsidiaries (collectively, the "Eligible Persons"), options to subscribe for shares on the terms set out in the Existing Share Option Scheme.

The total number of shares in respect of which options may be granted under the Existing Share Option Scheme shall be 757,380,227 shares, representing approximately 9.56% of the total number of issued shares of the Company as at the date of this report of the directors.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of the Company from time to time.

The minimum period for which the options must be held before they can be exercised and the period within which the options must be exercised (the "vesting period") will be specified by the Board (or its duly authorised officer(s) or delegate(s)) at the time of the offer of grant. The vesting period is up to six years (or such other period which must not be more than 10 years from the date of grant of the relevant options) as determined by the Board (or its duly authorised officer(s) or delegate(s)) at the time of granting the relevant options. An offer of grant of an option must be accepted by the date being a date not more than 30 days after the date of the offer. The amount payable on acceptance of an offer is HK$1.00.

The subscription price for shares in respect of an option grant shall be the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Since its adoption, no option has been granted under the Existing Share Option Scheme.

Please also refer to note 37 to the consolidated financial statements.

Summary of Principal Terms of BFIH Share Option Scheme

BFIH adopted a share option scheme (the "BFIH Share Option Scheme") on 28 May 2021 following the passing of an ordinary resolution approving the same by the shareholders of the Company at the annual general meeting of the Company held on 28 May 2021. The BFIH Share Option Scheme shall be valid and effective for a period of 10 years from 28 May 2021 until 27 May 2031, unless otherwise terminated in accordance with its terms.

On 23 December 2022, the amendments of the BFIH Share Option Scheme (which were made to comply with the applicable Indian regulatory requirements and to remove certain provisions in the BFIH Share Option Scheme which would no longer applicable to BFIH under the Existing Chapter 17) were approved by the shareholders at the Company's extraordinary general meeting. Please refer to the Company's announcements dated 24 November 2022 and 23 December 2022 respectively and circular dated 1 December 2022 for details. In particular, as from 23 December 2022, any alteration to the BFIH Share Option Scheme would no longer be subject to the prior approval of the Company's shareholders in general meeting, and (for so long as BFIH remains a subsidiary of the Company) (a) any grants of options to grantees who are connected persons of the Company and (b) any material amendments to the BFIH Share Option Scheme or any increase or refreshment of the scheme mandate referred to in the BFIH Share Option Scheme shall be subject to compliance by the Company with the applicable requirements of the Listing Rules. For the avoidance of doubt, the principal terms of the BFIH Share Option Scheme below are their up-to-date versions as at the date of this report of the directors.

Pursuant to approvals from the board of directors and the shareholders of BFIH and with the consent of the relevant grantees, all of the outstanding share options granted by BFIH have been cancelled with effect from 12 June 2022. Please see the Company's announcement of 13 June 2022 for details.

The purpose of the BFIH Share Option Scheme is to attract and retain capable and skilled and experienced personnel, to incentivize them to remain with BFIH and its subsidiaries (the "BFIH Group") and to give effect to the BFIH Group's customer-focused and performance-driven corporate culture, and to motivate them to strive for the future development and expansion and long-term success of the BFIH Group, by providing them with the opportunity to acquire equity interests in BFIH.

Subject to the terms of the BFIH Share Option Scheme, the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) may, at its absolute discretion, offer to grant to (a) the employees as designated by BFIH (including directors (other than independent directors as defined under applicable Indian regulations) of the BFIH Group; and (b) the third party service providers of the BFIH Group, comprising the employees (including directors (other than independent directors or the foreign equivalent) and members of senior management) of a direct or indirect holding company (as defined under the India Companies Act) of BFIH (including, for the avoidance of doubt, the Company and Hon Hai), but excluding in both cases: (i) an employee who is a promoter or a person belonging to the promoter group; and (ii) a director who either himself or through his relative or through any body corporate, directly or indirectly, holds more than 10% of the outstanding/issued equity shares of BFIH) (collectively, the "BFIH Eligible Persons") options to subscribe for BFIH shares on the terms set out in the BFIH Share Option Scheme.

The total number of BFIH shares in respect of which options may be granted under the BFIH Share Option Scheme shall be 154,984,498 shares, representing 6.51% of the total number of issued shares of BFIH as at the date of this report of the directors.

The total number of BFIH shares issued and to be issued upon exercise of options granted and to be granted to each grantee in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of BFIH from time to time.

The minimum period for which the options must be held before they can be exercised and the period within which the options must be exercised (the "BFIH vesting period") will be specified by the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) at the time of the offer of grant. The BFIH vesting period is from a minimum of one year and up to six years (or such other period which must not be less than one year nor more than 10 years from the date of grant of the relevant options) as determined by the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) at the time of granting the relevant options. The minimum vesting period of one year shall not apply in case of early vesting of options owing to the grantee's death or permanent incapacity, or ill-health, injury or disability not attributable to the grantee's own misconduct. An offer of grant of an option under the BFIH Share Option Scheme must be accepted by the date being a date not more than 30 days after the date of the offer. No amount is payable on acceptance of an option.

The amount payable for each BFIH share to be subscribed for upon exercise of an option under the BFIH Share Option Scheme shall be determined by the board of directors of BFIH in its absolute discretion and notified to a BFIH Eligible Person, after having taken into account (among other things) the nominal value and then market value of a BFIH share, provided that such amount shall not be lower than the nominal value of a BFIH share.

Movements of the Cancelled BFIH Share Options

Certain share options were granted under the BFIH Share Option Scheme on 1 and 23 December 2021 which were subsequently cancelled on 12 June 2022. Movements of the cancelled BFIH share options during the current period were as follows:

Grantee(s)	Date of grant of share options (dd.mm.yyyy)	Number of share options: At date of grant	At 1 January 2022	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2022	Vesting period	Exercise period (dd.mm.yyyy)	Total consideration paid for share options granted INR	Exercise price of share options INR (per share)
Directors of the Company *(Notes a, b and d)*											
CHIH Yu Yang (also acting as chief executive officer)	23.12.2021	12,500,000	12,500,000	–	–	12,500,000	0	1–3 years	23.12.2022 to 30.11.2029	nil	20.00
KUO Wen-Yi	23.12.2021	500,000	500,000	–	–	500,000	0	1–3 years	23.12.2022 to 30.11.2029	nil	20.00
MENG Hsiao-Yi (also acting as chief operating officer) (resigned with effect from 10 March 2023)	23.12.2021	11,000,000	11,000,000	–	–	11,000,000	0	1–3 years	23.12.2022 to 30.11.2029	nil	20.00
Employees (other than Directors of the Company) *(Notes a, c and d)*	01.12.2021	59,110,000	59,110,000	–	–	59,110,000	0	1–3 years	01.12.2022 to 30.11.2029	nil	20.00
Total		83,110,000	83,110,000	–	–	83,110,000	0				

Notes:

(a) The validity period of the above share options shall commence from the vesting date of the option granted and end within 5 years post vesting of the above share options, subject to any early lapse thereof in accordance with the BFIH Share Option Scheme.

(b) The above share options granted on 23 December 2021 shall be exercisable during the following periods (subject to the fulfillment of certain vesting conditions, if applicable):

(i) the first tranche (representing 30% of the above share options) shall be exercisable from 23 December 2022 to 30 November 2027 (both dates inclusive);

(ii) the second tranche (representing 30% of the above share options) shall be exercisable from 1 December 2023 to 30 November 2028 (both dates inclusive); and

(iii) the third tranche (representing 40% of the above share options) shall be exercisable from 1 December 2024 to 30 November 2029 (both dates inclusive).

(c) The Company refers to the announcement (the "2021 Announcement") of the Company dated 23 December 2021 regarding the grant of BFIH share options to three executive directors of the Company (the "Three Executive Directors") and the BFIH Eligible Persons other than the Three Executive Directors (the "Other BFIH Eligible Persons"). The Company would like to clarify that BFIH has granted a total number of 83,110,000 BFIH share options to the Three Executive Directors and Other BFIH Eligible Persons as at 31 December 2021, amongst which 24,000,000 BFIH share options were granted to the Three Executive Directors on 23 December 2021, while 59,110,000 BFIH share options were granted to the Other BFIH Eligible Persons (being certain employees of the Group) on 1 December 2021.

Such share options granted on 1 December 2021 shall be exercisable during the following periods (subject to the fulfillment of certain vesting conditions, if applicable):

(i) the first tranche (representing 30% of the above share options) shall be exercisable from 1 December 2022 to 30 November 2027 (both dates inclusive);

(ii) the second tranche (representing 30% of the above share options) shall be exercisable from 1 December 2023 to 30 November 2028 (both dates inclusive); and

(iii) the third tranche (representing 40% of the above share options) shall be exercisable from 1 December 2024 to 30 November 2029 (both dates inclusive).

Save as stated above, other information contained in the 2021 Announcement relating to grant of BFIH share options to the Three Executive Directors remains unchanged.

(d) Pursuant to approvals from the board of directors and the shareholders of BFIH and with the consent of the relevant grantees, all of the share options granted by BFIH have been cancelled with effect from 12 June 2022.

Save as disclosed above, there was no option granted under the BFIH Share Option Scheme during the current period.

Please also refer to note 37 to the consolidated financial statements.

Information on Existing Share Scheme

The purpose of the Existing Share Scheme is to attract skilled and experienced personnel, to incentivise them to remain with the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

The Existing Share Scheme was not subject to the provisions of the pre-existing Chapter 17 of the Listing Rules. The Existing Chapter 17 has applied to the Existing Share Scheme since 1 January 2023, subject to certain transitional arrangements.

The Existing Share Scheme provides (among other things) that: (a) for grants to the beneficiaries who are not connected persons (as defined in the Listing Rules) of the Company, the trustee for the Existing Share Scheme (being a professional institution) shall subscribe, on behalf of the beneficiaries, for new shares at nominal value from the Company; and (b) for grants to the beneficiaries who are connected persons of the Company, the trustee shall purchase, on behalf of the beneficiaries, shares from the market. For details about the trustee for the Existing Share Scheme, please refer to the Company's circular as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report of the directors.

The Board (or its duly authorised officer(s) or delegate(s)) may determine as to which of the Eligible Persons should be entitled to receive grants of shares under the Existing Share Scheme, together with the number of shares to which each proposed beneficiary should be entitled.

In accordance with the Existing Share Scheme, the maximum number of shares which may be subscribed for by the trustee on behalf of the beneficiaries who are not connected persons of the Company, during the period between one annual general meeting and the subsequent annual general meeting, must not exceed 2% of the Company's total number of issued shares as at the date of the earlier annual general meeting. There is no maximum number of shares to be purchased by the trustee on behalf of the beneficiaries who are connected persons of the Company. However, if any proposed grant of shares to any connected person would result in the total number of shares granted and to be granted to such connected person during the 12-month period immediately preceding the date of such proposed grant exceeding 1% of the total number of issued shares of the Company as at the date of such proposed grant, then such proposed grant must be approved by the shareholders of the Company in general meeting, at which such connected person and his/her associates (as defined in the Listing Rules) shall abstain from voting.

The shares granted will be subject to lock-up periods of up to three years commencing from the date of grant, which will vary from beneficiary to beneficiary as to be determined by the Board (or its duly authorised officer(s) or delegate(s)). An offer of grant of shares (in respect of which no consideration is payable) must be accepted by the date being a date not more than 30 days after the date of the offer.

At the Company's annual general meeting held on 20 May 2022, an ordinary resolution was passed to grant a general mandate to the Board (or its duly authorised officer(s) or delegate(s)) to allot, issue and deal with additional shares under the Existing Share Scheme not exceeding 2% of the total number of issued shares of the Company as at the date of such meeting, amounting to an aggregate of 159,460,000 shares, representing 2.01% of the total number of issued shares of the Company as at the date of this report of the directors.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 22 November 2017, the Company offered 118,595,820 ordinary shares to a total of 869 beneficiaries pursuant to the Existing Share Scheme, of which 114,343,918 ordinary shares were granted without lock-up periods, while the remaining ordinary shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer of the shares. 106,053,805 ordinary shares were issued on 22 November 2017 and 12,542,015 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2017.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the Board) on 28 November 2017, the Company offered 2,171,795 ordinary shares to a total of 13 beneficiaries pursuant to the Existing Share Scheme without lock-up periods. No consideration was payable on acceptance of offer of the shares. 2,171,795 ordinary shares were issued on 28 November 2017.

Pursuant to the approval of the Board on 15 November 2018, the Company offered 146,963,583 ordinary shares to a total of 191 beneficiaries pursuant to the Existing Share Scheme, of which 143,711,681 ordinary shares were granted without lock-up periods, while the remaining ordinary shares were granted with lock-up periods within one year from the grant date. No consideration was payable on acceptance of offer of the shares. 120,594,615 ordinary shares were issued on 15 November 2018 and 26,368,968 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2018.

No shares of the Company were granted under the Existing Share Scheme in 2019 and 2020.

Pursuant to the approval of the Board on 23 December 2021, the Company offered 7,328,361 ordinary shares to a total of 2 beneficiaries pursuant to the Existing Share Scheme, of which 7,328,361 ordinary shares were granted with lock-up periods up to 10 January 2022 from the grant date. No consideration was payable on acceptance of offer of the shares. 7,328,361 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in January 2022.

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

Movements of the 2022 share grants under the Existing Share Scheme were as follows:

			Number of shares granted						
Name or category of participants	Date of grant (dd.mm.yyyy)	Vesting date (dd.mm.yyyy)	Fair value at the date of grant (note a) HK$	Unvested as at 1 January 2022	Granted during the year	Purchase price HK$	Cancelled/ Lapsed/ Forfeited during the year	Vested during the year	Unvested as at 31 December 2022
Director/Chief Executive									
CHIH Yu Yang (also acting as the chief executive officer)	3.11.2022	1.12.2022	0.71	0	7,448,142 (note b)	nil	–	7,448,142 (note c)	0
MENG Hsiao-Yi (also acting as the chief operating officer) (resigned with effect from 10 March 2023)	3.11.2022	1.12.2022	0.71	0	2,576,062 (note b)	nil	–	2,576,062 (note c)	0
Total				0	10,024,204	–	–	10,024,204	0

Notes:

(a) The fair value of the shares granted is measured by the quoted market price of the shares at the date of grant. A description of the basis for fair value measurement is set out in note 3.2 "Share-based payment arrangements" to the consolidated financial statements.

(b) The closing price of the shares on the date of grant was HK$0.71 per share. The closing price of the shares on 2 November 2022, being the date immediately before the date on which the shares were granted, was HK$0.70 per share.

(c) The closing prices of the shares on 30 November 2022 and 1 December 2022, being the date immediately before the date on which the shares were vested and the date of vesting, were HK$0.84 and HK$0.86 per share respectively. The weighted average closing price of the shares immediately before the date on which the shares were vested was HK$0.84 per share.

As at 1 January 2022, the number of shares that may be issued under the Existing Share Scheme was 161,696,360 shares.

As at 31 December 2022, the number of shares that may be issued under the Existing Share Scheme was 159,460,000 shares.

Further details of the Existing Share Scheme are set out in note 37 to the consolidated financial statements.

Pursuant to the approval of the Board on 10 March 2023 and the subsequent finalisation by the Board's delegate, the Company offered 2,869,153 ordinary shares to a total of 2 beneficiaries pursuant to the Existing Share Scheme, of which 2,869,153 ordinary shares were granted with lock-up periods up to 31 March 2023 from the grant date (i.e. 13 March 2023). No consideration was payable on acceptance of offer of the shares. 2,869,153 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in March 2023. Please refer to the Company's announcement dated 13 March 2023 for details.

MAJOR CUSTOMERS AND SUPPLIERS

During the current period, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 91.2% of the Group's total revenue from sales of goods and rendering of services for the current period and revenue from sales of goods and rendering of services to the Group's largest customer amounted to approximately 36.5%. Purchases from the Group's five largest suppliers accounted for approximately 49.4% of the Group's total purchases for the current period and purchases from the Group's largest supplier amounted to approximately 15.8%.

None of the directors of the Company or any of their close associates (as defined in the Listing Rules) or any shareholder (which, to the best knowledge of the directors, owns more than 5% of the total number of issued shares of the Company as at the date of this report of the directors) had any interest in any of the Group's five largest customers and five largest suppliers, except that the Hon Hai Technology Group is one of the Group's five largest suppliers as well as one of the Group's five largest customers, and Mr. Chih and Dr. Kuo, both being executive directors of the Company, have interests in Hon Hai as more particularly described in the section headed "Disclosure of Interests" of this report of the directors.

For related matters, please refer to the "Key Relationships with Customers, Suppliers and Employees" section above.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company (other than service contracts with any director or any person engaged in the full-time employment of the Company) were entered into or existed during the current period.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of the annual report incorporating this report of the directors, to the best knowledge of the directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period and up to the date of this report, 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 Highest HK$	Price per share Lowest HK$	Aggregate consideration paid (before expenses) 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$	Price per share 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 are 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the memorandum and articles of association of the Company in force for the time being and the Companies Act of the Cayman Islands (as amended from time to time).

PENSION SCHEMES

Details of the Group's pension schemes and the basis of calculation are set out in note 36 to the consolidated financial statements.

TAX RELIEF

The Company is not aware of any relief on taxation available to its shareholders by reason of their holding of the shares of the Company. If the shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising any rights in relation to the shares of the Company, they are advised to consult independent professional adviser(s).

AUDIT COMMITTEE

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

The audit committee has reviewed the audited consolidated financial statements of the Group for the current period and the annual report incorporating this report of the directors and recommended the same to the Board for approval.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the current period, in compliance with the code provisions set out in Part 2 of the CG Code during the current period.

For more details, please refer to the Company's 2022 corporate governance report, which forms part of the annual report incorporating this report of the directors.

AUDITOR

The consolidated financial statements have been audited by the Company's auditor, Deloitte Touche Tohmatsu who is due to retire and, being eligible, will offer itself for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

CHIH Yu Yang
Acting Chairman

10 March 2023

Deloitte. 德勤

TO THE SHAREHOLDERS OF FIH MOBILE LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of FIH Mobile Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 147 to 234, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of unlisted equity investment in relation to HMD Global Oy ("HMD") and expected credit loss ("ECL") on trade receivables due from HMD	
We identified fair value measurement of unlisted equity investment in relation to HMD and ECL on trade receivables from HMD as a key audit matter due to the involvement of significant estimation uncertainty over the assumptions. As disclosed in notes 4, 16 and 33 to the consolidated financial statements, in determining the fair value of unlisted equity investment in relation to HMD and ECL on trade receivables due from HMD, the Group engaged independent professional valuers to (i) perform the valuation of the investment using option-pricing method to allocate equity value of HMD derived from the 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 required the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin and taking into account relevant industry growth and market development forecasts and (ii) assess the ECL on trade receivables due from HMD individually, including expected probability of default rate, forward looking adjustments and the estimated loss given default rate, based on market available information. The fair value of unlisted equity investment in relation to HMD was determined as US$103,900,000 as at 31 December 2022 and fair value loss of US$80,748,000 was recognised in other comprehensive income for the year ended 31 December 2022. The gross carrying amount of the trade receivables due from HMD was US$226,428,000 as at 31 December 2022 and related ECL of US$77,465,000 was recognised in profit or loss for the year ended 31 December 2022.	Our procedures in relation to evaluating the appropriateness of the management's fair value measurement of unlisted equity investment in relation to HMD and ECL on trade receivables due from HMD included: • Understanding how the Group's management determines the fair value of unlisted equity investment in relation to HMD and ECL on trade receivables due from HMD, including the valuation model adopted, key assumptions used and the involvement of independent professional valuers appointed by the Group; • Evaluating the competence, capability and objectivity of the valuers; • Evaluating the historical reasonableness of the financial budgets prepared by the HMD's management by comparing the historical budgets with the actual performance; • Evaluating the reasonableness of the budgeted sales and gross margin by considering the financial budgets and business plan approved by the management of HMD, relevant industry growth and the market development forecasts with reference to the available industry and market data; • In respect of the ECL on trade receivables from the HMD, assessing the reasonableness of key assumptions adopted by the valuer, including expected probability of default rate, forward looking adjustments and the estimated loss given default rate, based on market available information; and • Engaging our valuation expert to evaluate the appropriateness of the valuation models adopted and the key assumptions used.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Allowance for inventories	
We identified allowance for inventories as a key audit matter due to the critical judgment exercised by the Group's management in identifying the slow-moving and obsolete inventories and assessing the amount of allowance for inventories. As disclosed in note 4 to the consolidated financial statements, the Group's management reviews the future sales plan and the inventory aging list to identify slow-moving and obsolete inventories that are no longer suitable for use in operation and then estimates the net realisable value based on the estimated selling prices and market condition to the extent that such condition exists at the end of reporting period, less the estimated cost of completion and costs necessary to make the sale. As at 31 December 2022, the carrying amount of inventories, net of allowance, was US$731,898,000 and write-down on inventories of US$27,071,000 was recognised for the year ended 31 December 2022 to write-down relevant inventories to its estimated net realisable value.	Our procedures in relation to evaluating the appropriateness of the allowance for inventories included: • Understanding how the Group's management identifies the slow-moving and obsolete inventories and assesses the amount of allowance for inventories; • Evaluating the appropriateness of the basis of identification of the slow-moving and obsolete inventories; • Engaging the component auditors to test the accuracy of the aging analysis of inventories, on a sample basis; • Engaging the component auditors to evaluate the historical reasonableness of allowance for inventories by comparing the actual loss to historical allowance recognised; and • Engaging the component auditors to assess the reasonableness of the amount of allowance for inventories, on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine the matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe the matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Keung To Wai, David.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
10 March 2023

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	5	**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	6	**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	7	**(59,684)**	70,158
Income tax expense	10	**(12,451)**	(13,735)
(Loss) profit for the year		**(72,135)**	56,423
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	31	**–**	(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	12		
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	*13*	**728,302**	813,658
Right-of-use assets	*14*	**40,198**	60,210
Investment properties	*15*	**10,189**	14,655
Equity instruments at fair value through profit or loss		**–**	1,900
Equity instruments at fair value through other comprehensive income	*16*	**143,610**	225,339
Interests in associates	*17*	**25,951**	20,891
Interests in joint ventures	*18*	**33,185**	40,000
Deferred tax assets	*19*	**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	*20*	**731,898**	850,592
Trade and other receivables	*21*	**1,905,645**	2,001,387
Bank deposits	*28*	**24,280**	14,327
Cash and cash equivalents	*28*	**1,825,109**	1,884,719
		4,486,932	4,751,025
Current liabilities			
Trade and other payables	*22*	**2,704,356**	2,732,383
Contract liabilities		**273,157**	105,207
Lease liabilities	*23*	**1,498**	5,033
Bank borrowings	*24*	**676,054**	857,490
Provision	*29*	**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	**2022 US$'000**	2021 US$'000
Capital and reserves			
Share capital	*25*	**317,550**	320,400
Reserves	*26*	**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	*19*	**3,752**	6,715
Deferred income	*30*	**8,067**	9,279
Lease liabilities	*23*	**2,263**	18,143
		14,082	34,137
		1,801,858	2,201,406

The consolidated financial statements on pages 147 to 234 were approved and authorised for issue by the board of directors on 10 March 2023 and are signed on its behalf by:

CHIH YU YANG
DIRECTOR

KUO Wen-Yi
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company												
	Share capital US$'000	Share premium US$'000	Shares bought-back pending cancellation US$'000	Special reserve US$'000 *(note 26)*	Revaluation reserve US$'000 *(note a)*	Other reserve US$'000 *(note b)*	Legal reserve US$'000 *(note 26)*	Translation reserve US$'000	Share compensation reserve US$'000	Retained profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2021	325,800	1,196,955	(2,746)	15,514	(4,286)	(740)	174,769	111,361	–	258,805	2,075,432	6,636	2,082,068
Profit for the year	–	–	–	–	–	–	–	–	–	56,328	56,328	95	56,423
Other comprehensive income for the year	–	–	–	–	16,887	335	–	28,615	–	–	45,837	89	45,926
Total comprehensive income for the year	–	–	–	–	16,887	335	–	28,615	–	56,328	102,165	184	102,349
Repurchase of ordinary shares *(note 25)*	–	–	(18,150)	–	–	–	–	–	–	–	(18,150)	–	(18,150)
Cancellation of ordinary shares	(5,400)	(14,326)	19,726	–	–	–	–	–	–	–	–	–	–
Profits appropriations	–	–	–	–	–	–	1,650	–	–	(1,650)	–	–	–
Recognition of equity settle share-based payment *(note 37)*	–	–	–	–	–	–	–	–	513	–	513	489	1,002
Balance at 31 December 2021	**320,400**	**1,182,629**	**(1,170)**	**15,514**	**12,601**	**(405)**	**176,419**	**139,976**	**513**	**313,483**	**2,159,960**	**7,309**	**2,167,269**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(72,107)**	**(72,107)**	**(28)**	**(72,135)**
Other comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(79,405)**	**384**	**–**	**(226,395)**	**–**	**–**	**(305,416)**	**(669)**	**(306,085)**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(79,405)**	**384**	**–**	**(226,395)**	**–**	**(72,107)**	**(377,523)**	**(697)**	**(378,220)**
Repurchase of ordinary shares *(note 25)*	**–**	**–**	**(10,276)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,276)**	**–**	**(10,276)**
Cancellation of ordinary shares	**(2,850)**	**(7,426)**	**10,276**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**(1,459)**	**–**	**–**	**–**	**–**	**1,459**	**–**	**–**	**–**
Payment made for equity-settled share-based payment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,197)**	**–**	**(1,197)**	**–**	**(1,197)**
Recognition of equity settle share-based payment *(note 37)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**684**	**–**	**684**	**9,516**	**10,200**
Cancellation of equity-settled share-based payment *(note 37)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,005**	**10,005**	**(10,005)**	**–**
Balance at 31 December 2022	**317,550**	**1,175,203**	**(1,170)**	**15,514**	**(68,263)**	**(21)**	**176,419**	**(86,419)**	**–**	**252,840**	**1,781,653**	**6,123**	**1,787,776**

Notes:

(a) The revaluation reserve represents the change in fair value of equity investments classified as financial assets at fair value through other comprehensive income.

(b) The other reserve represents the remeasurement of defined benefit pension plans and the effects of changes in ownership in certain subsidiaries when there was no change in control.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
OPERATING ACTIVITIES			
(Loss) profit before tax		**(59,684)**	70,158
Adjustments for:			
Depreciation and amortisation		**165,431**	189,360
Write-down of inventories		**27,071**	28,333
(Gain) loss on disposal and write-off of property, plant and equipment		**(1,422)**	7,268
Gain on deemed disposal of subsidiaries	*31*	**–**	(34,915)
Interest expenses		**29,578**	8,877
Share of loss of associates		**3,085**	1,117
Share of loss of a joint venture		**4,361**	–
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
Deferred income released to income		**(1,128)**	(714)
Net fair value loss (gain) arising on equity instruments at fair value through profit or loss		**1,900**	(1,900)
Interest income		**(44,111)**	(35,552)
Gain on disposal of investment property		**(6,235)**	–
Gain on early termination of leases	*14*	**(267)**	–
Equity-settled share-based payments		**10,200**	1,002
Dividend income from equity instruments at fair value through other comprehensive income		**–**	(2,203)
Operating cash flows before movements in working capital		**213,016**	247,681
Decrease (increase) in inventories		**29,135**	(265,105)
(Increase) decrease in trade and other receivables		**(4,573)**	383,508
Decrease in trade and other payables		**(8,577)**	(67,732)
Increase (decrease) in contract liabilities		**168,284**	(10,556)
Decrease in provision		**(3,140)**	(3,311)
Cash generated from operations		**394,145**	284,485
Income taxes paid, net		**(27,027)**	(38,688)
Interest received		**43,493**	35,511
Payments made for share-based payments expenses		**(1,197)**	–
NET CASH FROM OPERATING ACTIVITIES		**409,414**	281,308

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(143,295)**	(118,801)
(Placement) withdrawal of bank deposits for investing purpose		**(11,219)**	1,104
Purchase of equity instruments at fair value through other comprehensive income		**(4,701)**	(2,791)
Advance payment received from disposal of investment properties	*15*	**18,745**	–
Proceeds from disposal of equity instruments at fair value through other comprehensive income		**6,334**	–
Proceeds from disposal of property, plant and equipment		**4,284**	33,213
Proceeds from disposal of investment properties	*15*	**2,891**	–
Net cash outflow on deemed disposal of subsidiaries	*31*	**–**	(2,066)
Dividend income received from equity instruments at fair value through other comprehensive income		**–**	2,203
NET CASH USED IN INVESTING ACTIVITIES		**(126,961)**	(87,138)
FINANCING ACTIVITIES			
Bank borrowings raised		**3,048,913**	2,625,735
Bank borrowings repaid		**(3,220,650)**	(2,699,389)
Interest on bank borrowings paid		**(27,085)**	(7,317)
Payments on repurchase of ordinary shares		**(10,276)**	(18,150)
Repayments of lease liabilities		**(3,958)**	(10,638)
Interest on lease liabilities paid		**(967)**	(1,123)
NET CASH USED IN FINANCING ACTIVITIES		**(214,023)**	(110,882)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**68,430**	83,288
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,884,719**	1,779,332
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(128,040)**	22,099
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**1,825,109**	1,884,719

1. GENERAL

FIH Mobile Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 8 February 2000 under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 3 February 2005. The Company's parent company is Foxconn (Far East) Limited (incorporated in the Cayman Islands) and its ultimate holding company is Hon Hai Precision Industry Co. Ltd. ("Hon Hai") (incorporated in Taiwan and its shares are listed on the Taiwan Stock Exchange Corporation). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. The Group provides a wide range of manufacturing services to its customers in connection with the production of handsets. The principal activities of its principal subsidiaries are set out in note 38.

The consolidated financial statements are presented in United States Dollars ("US$") which is also the functional currency of the Company.

2. 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.

2.1 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. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2024

Except for the amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 "Income Taxes" ("IAS 12") so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3, the Group applies IAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognised due to application of the initial recognition exemption.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to US$3,594,000 and US$3,761,000 respectively. Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with IFRS 16 "Leases" ("IFRS 16"), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36 "Impairment of Assets" ("IAS 36").

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income ("OCI") are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 "Financial Instruments" ("IFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is 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 of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and OCI are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or 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. Any impairment loss recognised is not allocated to any assets, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Investments in associates and joint ventures *(Continued)*

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in OCI in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in OCI by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

A point in time revenue recognition

The revenue of the Group is recognised at a point in time. Under the transfer-of-control approach in IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"), revenue from manufacturing services (including sales of goods and processing service) to the Group's customers in connection with the production of handsets are recognised when the goods are passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (including sales of goods and processing service), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of IFRS 16 or arising from business combination, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee

Allocation of consideration to components of a contract
For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease component as a single lease component.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to leases of properties, machinery and equipment that have a lease term of twelve months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets
The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits
Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Lease modifications *(Continued)*

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains one or more additional lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component. The associated non-lease components are included in the respective lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US$) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in OCI and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Borrowing costs

All borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income, gains and losses".

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Share-based payment arrangements

Equity-settled share-based payment transactions

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from (loss) profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in OCI or directly in equity, in which case the current and deferred tax is also recognised in OCI or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land and construction in progress), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Freehold land is measured at cost less subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sales proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of IAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress and freehold land) over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties also include leased properties which are being recognised as right-of-use assets and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Impairment losses on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that those assets 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.

The recoverable amounts of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Research and development expenditure *(Continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or a financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets
Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets of the Group are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is not held for trading.

A financial asset is held-for-trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

(i) Amortised cost and interest income
Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets *(Continued)*

(ii) Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")
Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

(iii) Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

Impairment of financial assets subject to impairment assessment under IFRS 9
The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables, bank deposits and bank balances) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within twelve months after the reporting date.

Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 *(Continued)*
For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk
In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 *(Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 *(Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. Except for credit-impaired debtors and debtors with increasing credit risk which are assessed individually, the Group uses a practical expedient in estimating ECL on remaining debtors using a provision matrix taking into consideration historical credit loss experience, and forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortised cost

The Group's financial liabilities including bank borrowings and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract are entered into and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Timing of revenue recognition

In determining the timing of revenue recognised for manufactured goods, the directors of the Company have considered the Group has no enforceable right to payment for performance completed to date based on its legal advisor's opinion. In cases where the Group's right has changed, the timing of recognition of such revenue may vary.

Significant influence over interest in an associate

Although the Group has less than 20% equity interests in Diabell Co., Ltd. ("Diabell"), the management considers the Group has significant influence over Diabell by virtue of its right to appoint one out of five directors to the board of directors of Diabell (see note 17).

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurement of unlisted equity investment in relation to HMD Global Oy ("HMD") and ECL on trade receivables due from HMD

In determining the fair values of unlisted equity investment in relation to HMD, the Group engaged independent professional valuers to perform valuation of the investment using option-pricing method to allocate equity value of HMD derived from the cash flow projection based on financial budgets and business plan approved by HMD 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 and taking into account relevant industry growth and market development forecasts where applicable. Any changes in the key assumptions may affect the amount of fair value. As at 31 December 2022, the fair value of unlisted equity investment in relation to HMD was 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, details of which are disclosed in note 16.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Fair value measurement of unlisted equity investment in relation to HMD Global Oy ("HMD") and ECL on trade receivables due from HMD *(Continued)*

As at 31 December 2022, the management had considered that due to the continued deterioration of HMD's financial performance, there was a significant increase in credit risk in the trade receivables due from HMD. The Group engaged an independent profession valuer to assist in the estimation of the ECL provision on the trade receivables due from HMD by determining an appropriate probability of default rate, the estimated loss given default rate and forward looking adjustments.

As at 31 December 2022, the gross carrying amounts of the Group's trade receivables due from HMD was US$226,428,000 (2021: US$222,876,000). Based on management's assessment, the Group has recognised impairment loss under expected credit loss model of US$77,465,000 (2021: US$3,158,000) for the year ended 31 December 2022, details of which are disclosed in note 33.

Estimated allowance for inventories

The Group's management reviews the future sales plan and the inventory aging list to identify slow-moving and obsolete inventories that are no longer suitable for use in operation and then estimates the net realisable value based on the estimated selling prices and market condition to the extent that such condition exists at the end of reporting period, less the estimated cost of completion and costs necessary to make the sale. Where the net realisable value is less than the carrying amount, write-down on inventories will be made. As at 31 December 2022, the carrying amount of inventories is approximately US$731,898,000 (2021: US$850,592,000) and write-down on inventories of US$27,071,000 (2021: US$28,333,000) has recognised for the year ended 31 December 2022.

Income taxes

As at 31 December 2022, no deferred tax assets (2021: US$3,986,000) in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the 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 unused tax losses will be available for utilisation before their expiry. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

During the year ended 31 December 2022, no deferred tax has been provided for the undistributed profits of US$849,315,000 (2021: US$914,615,000) in subsidiaries in the People's Republic of China (the "PRC") as 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Income taxes *(Continued)*

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, accelerated tax depreciation 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 differences can be utilised.

In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in the Group being unable to control the timing of the reversal of the temporary difference, a material reversal or further recognition of deferred tax assets or liabilities may arise, which would be recognised in profit or loss for the period in which such a reversal or recognition takes place.

Estimated impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the management has to exercise judgement and make estimation, particularly in assessing: (i) whether an event has occurred or any indicators that may affect the asset recoverable amount; (ii) whether the carrying value of an asset can be supported by the recoverable amount. The recoverable amounts, being the fair value less costs of disposal, of the relevant assets have been estimated individually by the Group's management. In estimating the fair value of these assets, the management uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management engages third party qualified valuers to perform the valuation. The management will first consider and adopt Level 2 inputs where inputs can be observable, other than quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. As at 31 December 2022, the carrying amounts of property, plant and equipment were US$728,302,000 (2021: US$813,658,000). Impairment losses of US$3,703,000 (2021: US$12,171,000) was recognised in profit or loss during the year. Details of the impairment of property, plant and equipment are disclosed in note 13.

5. 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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

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 **US$'000**	2021 US$'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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

	2022 US$'000	2021 US$'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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information

	Year ended 31 December 2022				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	–	5,669	137,626	143,295
Depreciation and amortisation*	133,203	611	1,232	30,385	165,431
Gain on disposal and write-off of property, plant and equipment	–	–	–	1,422	1,422
Gain on disposal of investment properties	–	–	–	6,235	6,235
Impairment loss recognised for property, plant and equipment	–	–	–	3,703	3,703
Impairment loss under expected credit loss model, net of reversal	6,008	74,312	214	–	80,534
Provision for warranty	7,575	–	186	–	7,761
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Net fair value loss arising on equity instruments at FVTPL	–	–	–	1,900	1,900
Write-down of inventories to net realisable value	24,998	–	2,073	–	27,071

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information *(Continued)*

	Year ended 31 December 2021				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	14	595	118,192	118,801
Depreciation and amortisation*	151,587	924	1,597	35,252	189,360
Loss on disposal and write-off of property, plant and equipment	–	–	17	7,251	7,268
Impairment loss recognised for property, plant and equipment	–	–	–	12,171	12,171
Impairment loss under expected credit loss model, net of reversal	3,911	311	457	–	4,679
Provision for warranty	5,976	–	82	–	6,058
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Net fair value gain arising on equity instruments at FVTPL	–	–	–	1,900	1,900
Gain on deemed disposal of subsidiaries	–	–	–	34,915	34,915
Write-down of inventories to net realisable value	28,239	–	94	–	28,333

* Substantially all depreciation and amortisation included in segment profit are expensed through cost of sales while the related property, plant and equipment are excluded from segment assets.

Geographical information

Majority of the Group's segment revenue based on location of customers are attributed to the PRC included in Asia.

The Group's operations are located in the PRC (country of domicile), Republic of India ("India"), United Mexican States ("Mexico"), the United States of America ("USA"), Socialist Republic of Vietnam ("Vietnam") and other countries.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

Information about the Group's revenue from external customers and its non-current assets, both presented based on the Group's geographical location of operations are as follows:

	Revenue from external customers		Non-current assets	
	2022	2021	**2022**	2021
	US$'000	US$'000	**US$'000**	US$'000
PRC (country of domicile)	**7,493,354**	6,188,179	**600,953**	692,116
India	**1,854,244**	2,341,767	**96,367**	114,295
Mexico	**46,721**	52,249	**15,949**	11,377
Vietnam	**–**	–	**86,780**	91,157
USA	**–**	–	**955**	235
Other countries	**–**	364	**64,187**	70,115
	9,394,319	8,582,559	**865,191**	979,295

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2022	2021
	US$'000	US$'000
Customer A[1]	**3,427,153**	1,572,514
Customer B[1 & 2]	**1,972,894**	1,686,245
Customer C[1]	**1,844,388**	2,553,857

1 Revenue arising from provision of manufacturing services mainly to customers located in Asia and Europe and in connection with the production of handsets.

2 The customer represented Hon Hai and its subsidiaries other than the members of the Group.

6. OTHER INCOME, GAINS AND LOSSES

	2022 US$'000	2021 US$'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 *(note 15)*	**6,235**	–
Net fair value (loss) gain on financial assets at FVTPL		
— equity instruments	**(1,900)**	1,900
— other financial assets	**–**	(496)
Dividend income from equity instruments at FVTOCI	**–**	2,203
Gain on deemed disposal of subsidiaries *(note 31)*	**–**	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.

7. (LOSS) PROFIT BEFORE TAX

	2022 US$'000	2021 US$'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 *(note 8)*	**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

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive of the Company were as follows:

2022	Fees US$'000	Other emoluments Basic salaries and allowances US$'000	Other emoluments Performance-based or discretionary bonus US$'000 *(Note)*	Other emoluments Retirement benefit scheme contributions US$'000	Total US$'000
Chih Yu Yang (also acting as the chief executive)	–	236	914	–	1,150
Kuo Wen-Yi	–	393	240	–	633
Meng Hsiao-Yi (resigned on 10 March 2023)	–	161	330	–	491
Lau Siu Ki	40	12	–	–	52
Daniel Joseph Mehan	40	–	–	–	40
Tao Yun Chih	40	–	–	–	40
	120	802	1,484	–	2,406

2021	Fees US$'000	Other emoluments Basic salaries and allowances US$'000	Other emoluments Performance-based or discretionary bonus US$'000 *(Note)*	Other emoluments Retirement benefit scheme contributions US$'000	Total US$'000
Chih Yu Yang (also acting as the chief executive)	–	165	943	–	1,108
Kuo Wen-Yi	–	450	265	–	715
Meng Hsiao-Yi	–	126	287	–	413
Lau Siu Ki	31	9	–	–	40
Daniel Joseph Mehan	31	–	–	–	31
Tao Yun Chih	31	–	–	–	31
	93	750	1,495	–	2,338

Note: The performance-based or discretionary bonus, including share-based payments, is determined by reference to the individual performance of the directors and approved by the remuneration committee of the Company.

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

The chief executive of the Company is also a director and therefore the emoluments of the chief executive have been included in the amount disclosed above. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Neither the chief executive nor any of the directors waived any emoluments. Neither any of the directors nor the five highest paid individuals (note 9) were paid as compensation for loss of office and as incentive to join or upon joining the Group during the years ended 31 December 2022 and 2021.

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2021: three) executive directors of the Company, whose emoluments are included in note 8 above. The emoluments of the remaining two individuals (2021: two individuals) were as follows.

	2022 **US$'000**	2021 US$'000
Salaries, housing allowances and other allowances and benefits	**250**	331
Retirement benefits	**7**	14
Performance-related incentive payments	**557**	328
	814	673

Their emoluments were within the following bands:

	Number of employees	
	2022	2021
HK$2,500,001 to HK$3,000,000	**1**	2
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**1**	–
	2	2

10. INCOME TAX EXPENSE

	2022 **US$'000**	2021 US$'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 *(note 19)*		
— 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.

10. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the (loss) profit before tax as per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 US$'000	2021 US$'000
(Loss) profit before tax	**(59,684)**	70,158
Income tax (credit) charge at the PRC income tax rate of 25% (2021: 25%) for the year *(note)*	**(14,921)**	17,540
Effect of different tax rates of subsidiaries	**1,055**	(578)
Effect of income taxed at concessionary tax rates	**213**	2,901
Tax effect of expenses not deductible for tax purpose	**11,452**	9,422
Tax effect of income not taxable for tax purpose	**(17,176)**	(13,275)
Tax effect of tax losses/deductible temporary differences not recognised	**31,607**	5,011
Tax effect of share of loss of associates	**771**	279
Tax effect of share of loss of a joint venture	**1,090**	–
Overprovision in prior years	**(1,640)**	(7,565)
Income tax expense for the year	**12,451**	13,735

Note: The domestic income tax rate of 25% (2021: 25%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

11. 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 above) of Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited) ("BFIH").

12. (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 US$'000	2021 US$'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 as detailed in note 37(b) and the potential ordinary shares as detailed in note 37(d).

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2021	791,686	1,140,704	124,801	39,380	2,096,571
Exchange adjustments	11,226	25,841	758	(76)	37,749
Additions	4,853	94,225	8,986	10,737	118,801
Disposals and write-off	(17,316)	(275,089)	(14,035)	(1,642)	(308,082)
Transfers from right-of-use assets	–	26,172	–	–	26,172
Transfers	23,823	15,237	1,764	(40,824)	–
At 31 December 2021	814,272	1,027,090	122,274	7,575	1,971,211
Exchange adjustments	(56,544)	(101,553)	(6,899)	(1,208)	(166,204)
Additions	7,328	107,864	4,090	24,013	143,295
Disposals and write-off	(8,029)	(56,224)	(4,823)	–	(69,076)
Transfers from right-of-use assets	–	376	–	–	376
Transfers	2,095	8,402	560	(11,057)	–
At 31 December 2022	759,122	985,955	115,202	19,323	1,879,602
DEPRECIATION AND IMPAIRMENT					
At 1 January 2021	420,156	703,182	85,278	–	1,208,616
Exchange adjustments	9,878	9,341	578	–	19,797
Charge for the year	41,297	124,060	12,096	–	177,453
Eliminated on disposals and write-off	(14,111)	(242,478)	(11,012)	–	(267,601)
Transfers from right-of-use assets	–	7,117	–	–	7,117
Impairment loss recognised in profit or loss	–	12,171	–	–	12,171
At 31 December 2021	457,220	613,393	86,940	–	1,157,553
Exchange adjustments	(33,703)	(61,774)	(8,124)	–	(103,601)
Charge for the year	39,660	112,950	6,957	–	159,567
Eliminated on disposals and write-off	(15,418)	(46,312)	(4,484)	–	(66,214)
Transfers from right-of-use assets	–	292	–	–	292
Impairment loss recognised in profit or loss	1,071	2,632	–	–	3,703
At 31 December 2022	448,830	621,181	81,289	–	1,151,300
CARRYING VALUES					
At 31 December 2022	310,292	364,774	33,913	19,323	728,302
At 31 December 2021	357,052	413,697	35,334	7,575	813,658

Included in the land and buildings are freehold land, located in Hungary, Mexico and India, having an aggregate cost of approximately US$9,126,000 (2021: US$9,857,000). All buildings of the Group are situated outside Hong Kong.

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment (other than freehold land and construction in progress) are depreciated using the straight-line method, after taking into account their estimated residual values, over the following periods:

Land and buildings	Shorter of 20–40 years and the lease terms
Plant and machinery	5–10 years
Fixtures and equipment	3–5 years

At 31 December 2022, the directors of the Company appointed independent professional appraisers to perform appraisals on the Group's property, plant and equipment with impairment indicators, such as changing market environment which result in revenue decrease and assets being idle during the year and determined that a number of those assets were impaired. As a result, impairment losses of US$3,703,000 (2021: US$12,171,000) has been recognised in profit and loss in respect of land and buildings and plant and machinery (2021: plant and machinery) for the year.

14. RIGHT-OF-USE ASSETS

	Leasehold land US$'000	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Total US$'000
As at 31 December 2022					
Carrying amount	36,604	3,461	133	–	40,198
As at 31 December 2021					
Carrying amount	38,902	20,536	704	68	60,210
For the year ended 31 December 2022					
Depreciation charge	1,001	2,039	443	51	3,534
For the year ended 31 December 2021					
Depreciation charge	973	5,601	2,493	125	9,192

14. RIGHT-OF-USE ASSETS *(Continued)*

	Year ended 31 December 2022 US$'000	Year ended 31 December 2021 US$'000
Expense relating to short-term leases	**33,505**	36,533
Total cash outflow for leases	**38,430**	48,294
Additions to right-of-use assets	**1,365**	13,890

During the year ended 31 December 2022, the Group obtained ownership of certain leased assets with an aggregate carrying amount of US$84,000 (2021: US$19,055,000) at the end of the lease terms, which were subsequently classified as property, plant and equipment.

For both years, the Group leases leasehold land and buildings, plant and machinery and fixtures and equipment for its operations. Lease contracts are entered into for fixed term of one to three years without extension and termination option. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease assets may not be used as security for borrowing purpose.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

During the year, the Group entered into one (2021: several) new lease agreement for the use of leased properties, machinery and office equipment for three years (2021: one to six years). On the lease commencement, the Company recognised US$1,365,000 (2021: US$13,890,000) of right-of-use assets and US$1,365,000 (2021: US$13,890,000) of lease liabilities.

During the year ended 31 December 2022, the Group early terminated lease agreements with remaining lease term of one to two years and derecognised right-of-use assets of US$13,986,000 and lease liabilities of US$14,253,000, resulting in a gain on early termination of leases of US$267,000.

The Group regularly entered into short-term leases for certain premises, motor vehicles and office equipment. As at 31 December 2022 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense incurred during the year.

15. INVESTMENT PROPERTIES

The Group leases out buildings under operating leases with fixed rentals payable monthly. The leases typically run for an initial period of one to two years (2021: one to three years), with unilateral rights to extend the lease beyond initial period held by lessees only.

As at 31 December 2022 and 2021, certain investment properties are leased to the related parties of the Group but the Group had not contracted with the related parties for any future minimum lease payments.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	US$'000
COST	
At 1 January 2021	83,187
Exchange adjustment	(2,329)
At 31 December 2021	80,858
Exchange adjustment	(9,289)
Disposal *(note)*	(1,598)
At 31 December 2022	69,971
DEPRECIATION	
At 1 January 2021	66,045
Exchange adjustment	(2,557)
Provided for the year	2,715
At 31 December 2021	66,203
Exchange adjustment	(8,144)
Provided for the year	2,330
Eliminated on disposal *(note)*	(607)
At 31 December 2022	59,782
CARRYING VALUES	
At 31 December 2022	10,189
At 31 December 2021	14,655

15. INVESTMENT PROPERTIES *(Continued)*

Note: On 2 November 2022, the Group entered into compensation agreements (the "Agreements") with government authority in Hangzhou, Zhejiang Province, the PRC (the "Purchaser"). Pursuant to the Agreements, the Purchaser shall resume the ownership of two properties, 中國浙江省杭州經濟技術開發區11號大街58號、58-2號及58-3號 (Nos. 58, 58-2 and 58-3, 11th Avenue, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC) ("Property A") and 中國浙江省杭州經濟技術開發區 M14-11-10 (M14-11-10, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC) ("Property B") at a cash compensation of RMB607,669,300 (equivalent to approximately US$87,261,000) and RMB48,728,111 (equivalent to approximately US$7,226,000) respectively, details of which are set out in the Company's announcement dated on 2 November 2022.

On 15 December 2022, the Group's land use right and the relevant certificates have been cancelled and the Purchaser has resumed the ownership of Property B. Part of the compensation amounting to RMB19,491,244 (equivalent to approximately US$2,891,000) has been received by the Group during the year ended 31 December 2022 and the remaining balance of RMB29,236,867 (equivalent to approximately US$4,336,000) was included in "trade and other receivable" as at 31 December 2022, of which RMB14,618,433 (equivalent to approximately US$2,099,000) was subsequently received by the Group already. Accordingly, the Group has recognised a gain on disposal of investment property of US$6,235,000 during the year ended 31 December 2022, which was included in 'other income, gains and losses'.

During the current year, the Group has received an advance of RMB121,533,860 (equivalent to approximately US$18,745,000) from the Purchaser in respect of Property A, which is included in "trade and other payables" as at 31 December 2022. The Group plans to vacate Property A and to have its land use rights and related certificates cancelled in coming year. As at 31 December 2022, the carrying amount of Property A is US$9,335,000.

The fair value of the Group's investment properties at 31 December 2022 was US$99,406,000 (2021: US$83,655,000). The fair value has been arrived at based on a valuation carried out by independent valuers not connected with the Group. The fair value was determined by reference to recent market prices for similar properties in the same locations and conditions. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The above investment properties are depreciated using the straight-line method, after taking into account their estimated residual value, over 20 years.

16. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 US$'000	2021 US$'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, 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.

17. INTERESTS IN ASSOCIATES

	2022 US$'000	2021 US$'000
Cost of investments in associates, less impairment	12,357	12,357
Share of post-acquisition profit and other comprehensive income, net of dividend received	13,594	8,534
	25,951	20,891

17. INTERESTS IN ASSOCIATES *(Continued)*

At 31 December 2022 and 2021, the Group had interests in the following associates:

Name of associate	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share/ interest held	Proportion of nominal value of issued capital/interest held by the Group 2022	2021	Proportion of voting power held by the Group 2022	2021	Principal activities
Diabell Co., Ltd. *(note)*	Limited company	Republic of Korea ("Korea")	Korea	Ordinary	**19.998%**	19.998%	**20%**	20%	Designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products
Rooti Labs Limited	Limited company	Cayman Islands	Taiwan	Ordinary	**22.22%**	26.05%	**22.22%**	26.05%	Research and development of wearable products
杭州耕德電子有限公司 (known as Hangzhou Gengde Electronics Co., Ltd.)	Limited company	PRC	PRC	Equity interest	**35%**	35%	**33.33%**	33.33%	Engaging in the business of design, development and manufacturing of electronic devices and handset accessories

Note: Diabell Co., Ltd. is a private limited company established in Korea. In the opinion of the directors of the Company, the Group is able to exercise significant influence over Diabell because it has the right to appoint one out of five directors of Diabell.

Aggregate information of associates that are not individually material

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

	Year ended 31.12.2022 US$'000	Year ended 31.12.2021 US$'000
Total loss for the year	**(11,067)**	(3,618)
Other comprehensive expense	**(8,373)**	(4,182)
Total comprehensive expense	**(19,440)**	(7,800)
Group's share of loss and other comprehensive expense of associates for the year	**(5,797)**	(2,496)

18. INTERESTS IN JOINT VENTURES

	2022 US$'000	2021 US$'000
Cost of investments in joint ventures	**40,000**	43,060
Share of post-acquisition loss and other comprehensive expense	**(6,815)**	(3,060)
	33,185	40,000

At 31 December 2022 and 2021, the Group had interests in the following joint ventures:

Name of joint venture	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2022	2021	Proportion of voting power held by the Group 2022	2021	Principal activities
FIH RadioShack (Asia) Retail Holdings Limited	Limited company	Hong Kong	PRC	Ordinary	**N/A *(note)***	51%	**N/A *(note)***	60%	Sale of consumer electronics products and ancillary services
Mobile Drive Netherlands B.V. ("Mobile Drive")	Limited company	Netherlands	Netherlands	Ordinary	**50%**	50%	**50%**	50%	Research and development of communication systems, handsets as well as other software hardware and related systems

Note: During the year ended 31 December 2022, FIH RadioShack (Asia) Retail Holdings Limited was liquidated.

Summarised financial information of a material joint venture

Summarised financial information in respect of the joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

18. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of a material joint venture *(Continued)*

Mobile Drive

	2022 US$'000	2021 US$'000
Current assets	**77,867**	57,663
Non-current assets	**38,259**	46,679
Current liabilities	**(47,810)**	(16,657)
Non-current liabilities	**(1,947)**	(7,685)

The above amounts of assets and liabilities include the following:

	2022 US$'000	2021 US$'000
Cash and cash equivalents	**33,741**	2,066
Current financial liabilities (excluding trade and other payables and provision)	**(14,378)**	(3,653)
Non-current financial liabilities (excluding trade and other payables and provision)	**(1,242)**	–

	Year ended 31.12.2022 US$'000	Year ended 31.12.2021 US$'000
Revenue	**63,588**	–
Loss for the year	**(8,722)**	–
Other comprehensive expense for the year	**(4,909)**	–
Total other comprehensive expense for the year	**(13,631)**	–
The above loss for the year includes the following:		
Depreciation and amortisation	**2,254**	–
Interest income	**84**	–
Interest expense	**188**	–

18. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of a material joint venture *(Continued)*

Mobile Drive *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in Mobile Drive recognised in the consolidated financial statements:

	2022 US$'000	2021 US$'000
Net assets of Mobile Drive	**66,369**	80,000
Proportion of the Group's ownership interest in Mobile Drive	**50%**	50%
Carrying amount of the Group's interest in Mobile Drive	**33,185**	40,000

19. 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.

19. DEFERRED TAXATION *(Continued)*

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, accelerated tax depreciation 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.

20. INVENTORIES

	2022 US$'000	2021 US$'000
Raw materials	**484,217**	532,671
Work-in-progress	**110,589**	206,357
Finished goods	**137,092**	111,564
	731,898	850,592

21. TRADE AND OTHER RECEIVABLES

	2022 US$'000	2021 US$'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.

During the year ended 31 December 2022, certain trade receivables were derecognised under factoring arrangement with financial institutes at cash proceeds of US$2,402,526,000 (2021: US$1,341,659,000).

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 US$'000	2021 US$'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

21. TRADE AND OTHER RECEIVABLES *(Continued)*

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.

Details of impairment assessment of trade and other receivables are set out in note 33.

22. TRADE AND OTHER PAYABLES

	2022 **US$'000**	2021 US$'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 **US$'000**	2021 US$'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

23. LEASE LIABILITIES

	2022 US$'000	2021 US$'000
Within one year	**1,498**	5,033
Within a period of more than one year but not more than two years	**70**	15,106
Within a period of more than two years but not more than five years	**2,193**	177
More than five years	**–**	2,860
	3,761	23,176
Less: Amount due for settlement within twelve months shown under current liabilities	**(1,498)**	(5,033)
Amount due for settlement over twelve months shown under non-current liabilities	**2,263**	18,143

Note: During the year ended 31 December 2022, the Group early terminated lease agreements details of which are set out in note 14.

24. BANK BORROWINGS

	2022 US$'000	2021 US$'000
Bank loans — due within one year	**676,054**	857,490
Analysis of bank borrowings by currency:		
US$	**563,800**	816,280
Renminbi ("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).

25. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2021, 31 December 2021 and 31 December 2022	**20,000,000,000**	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2021	**8,145,000,000**	325,800
Repurchase and cancellation of shares	**(135,000,000)**	(5,400)
Balance at 31 December 2021	**8,010,000,000**	320,400
Repurchase and cancellation of shares	**(71,261,000)**	(2,850)
Balance at 31 December 2022	**7,938,739,000**	317,550

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

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

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

25. SHARE CAPITAL *(Continued)*

During the year ended 31 December 2021, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of US$0.04 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
January	34,818,000	1.33	0.98	38,408
June	44,818,000	1.30	1.22	56,031
July	30,000,000	1.27	1.16	37,423
December	7,000,000	1.36	1.24	9,127
	116,636,000			140,989
				US$'000
Equivalent to				18,150

109,636,000 ordinary shares were repurchased and cancelled during the year ended 31 December 2021. Remaining 7,000,000 ordinary shares were cancelled subsequently on 14 January 2022.

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

26. RESERVES

The Group's special reserve represents the difference between the paid-in capital of the subsidiaries acquired pursuant to the group reorganisation in 2004 and the nominal value of the Company's shares issued in exchange therefrom.

The Group's legal reserve represents statutory reserve attributable to the Company's subsidiaries in the PRC and Taiwan. As required by the laws in the PRC and Taiwan, appropriations are made from the profit of these subsidiaries to the legal reserve until the balance reaches 50% of the registered capital of the relevant subsidiaries. This reserve can only be used to make up losses incurred or to increase capital.

27. DERIVATIVES

Currency derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group utilises forward foreign exchange contracts to manage its exchange rate exposures. The instruments adopted are primarily to hedge the currencies used in the Group's principal markets.

During the current year, a loss from the forward foreign exchange contracts of US$342,000 (2021: gain of US$992,000) was recognised in profit or loss and included in other income, gains and losses.

At the end of the reporting period, notional amount of major outstanding forward foreign exchange contracts that the Group has committed are as below:

	2022 US$'000	2021 US$'000
US$	**85,000**	375,000

As at 31 December 2022, the fair value of the Group's currency derivatives is estimated to be approximately US$228,000 assets (2021: US$570,000 assets), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates, and is included as other receivables (2021: other receivables) at the end of the reporting period. The contracts outstanding as at 31 December 2022 mainly related to buying of Mexican Peso ("MXN") (2021: RMB and MXN) with maturities in the first quarter of 2023 (2021: first and second quarters of 2022).

28. BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

Bank deposits carry interest at prevailing market rate of 6.86% (2021: 2.49%) per annum on average, with original maturity of over three months.

Cash and cash equivalents include bank balances and cash which comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate of 3.74% (2021: 2.40%) per annum on average.

For the years ended 31 December 2022 and 2021, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of bank deposits and bank balances are set out in note 33.

28. BANK DEPOSITS AND CASH AND CASH EQUIVALENTS *(Continued)*

Analysis of bank deposits and bank balances and cash by currency:

	2022 US$'000	2021 US$'000
US$	**571,463**	452,276
RMB	**953,639**	1,047,968
INR	**234,115**	278,890
Brazilian Real	**7,709**	6,595
New Taiwan Dollar	**67,487**	99,608
Others	**14,976**	13,709
	1,849,389	1,899,046

29. PROVISION

	2022 US$'000	2021 US$'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.

30. DEFERRED INCOME

	2022 US$'000	2021 US$'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.

31. DEEMED DISPOSAL OF SUBSIDIARIES

On 24 August 2021, the Group entered into a joint venture agreement (the "JV Agreement") with an independent third party (the "Investor"). Pursuant to the JV agreement, the Investor should contribute a cash consideration of US$40,000,000 for 50% of Mobile Drive's enlarged capital (the "Transaction"), while the Group shall contribute certain agreed assets and liabilities, including certain internally-generated intangible assets to Mobile Drive. Mobile Drive together with its subsidiaries, engaged in research and development of communication systems, handsets as well as other software, hardware and related systems. The Transaction was completed on 31 December 2021.

Under the JV Agreement, call and put options (collectively referred as the "Options") were granted to the Group and the Investors, which are exercisable upon occurrence of certain option events as defined in the JV Agreement. The Options form part of the terms of the JV Agreement and no premium will be paid by each party for the grant of the Options. In the opinion of the directors of the Company, the fair value of the Options is considered immaterial at 31 December 2022 and 2021.

On completion of the Transaction, the management has determined that the Group has lost control over Mobile Drive and accordingly a gain on deemed disposal of US$34,915,000 was recognised. In addition, the fair value of the investment retained in Mobile Drive, which was classified as interest in a joint venture, details of which is set out in note 18, is determined as US$40,000,000 with reference to the consideration paid by the Investor.

More details of the Transaction are set out in the Company's announcement dated on 24 August 2021 and circular dated on 4 November 2021.

The net assets of the subsidiaries at the date of deemed disposal were as follows:

	2021 US$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	2,452
Right-of-use assets	516
Inventories	2,208
Trade and other receivables	13,389
Cash and cash equivalents	2,066
Trade and other payables	(12,950)
Lease liabilities	(517)
Provision	(1)
Income tax payable	(1)
Other liabilities and accruals	(3,188)
	3,974

31. DEEMED DISPOSAL OF SUBSIDIARIES *(Continued)*

	2021 US$'000
Gain on deemed disposal of subsidiaries:	
Interest in joint venture	40,000
Net assets disposed of	(3,974)
Reclassification of cumulative translation reserve upon deemed disposal of Mobile Drive to profit or loss	173
Transaction costs	(1,284)
Gain on deemed disposal	34,915
Net cash outflow arising on deemed disposal:	
Cash and cash equivalents disposed of	(2,066)

32. CAPITAL COMMITMENTS

	2022 US$'000	2021 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**6,283**	14,951

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2022 US$'000	2021 US$'000
Financial assets		
Fair value through profit or loss		
Derivatives (included in other receivables)	**228**	570
Equity instruments	**–**	1,900
	228	2,470
Financial assets at amortised cost	**3,538,849**	3,689,080
Equity instruments at FVTOCI	**143,610**	225,339
Financial liabilities		
At amortised cost		
Trade and other payables	**2,524,200**	2,461,738
Bank borrowings	**676,054**	857,490
	3,200,254	3,319,228

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include derivatives, bank deposits, cash and cash equivalents, equity instruments at FVTPL/FVTOCI, trade and other receivables, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and lease liabilities include market risk (currency risk, other price risk and interest rate risk), credit risk and impairment assessment and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 24 for details of these bank borrowings) and lease liabilities (see note 23 for details). The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Cash flow interest rate risk in relation to variable-rate bank balances and deposits is considered insignificant as most of them are short-term in nature. Accordingly, no interest rate sensitivity analysis is presented.

Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL and FVTOCI. For equity securities listed in USA, the management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain unquoted equity securities in PRC, India, USA, Taiwan and Finland for investees engaged in the development, manufacture and sale of telecommunication devices, software and related services for long term strategic purposes which had been designated as FVTOCI. Sensitivity analysis for unquoted equity securities with fair value measurement categorised within level 3 were disclosed in note 33(c). The Group has organised an investment team to monitor the price risk and will consider hedging the risk exposure should the need arise.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign currency risk arises when the Group's recognised assets and liabilities are denominated in a currency that is not the group entity's functional currency.

The Group manages its foreign currency exposures by non-financial techniques such as managing the transaction currency, leading and lagging payments, receivable management, etc. In addition, the Group sometimes obtains bank borrowings in various foreign currencies and enters into short-term forward foreign currency contracts less than four months (2021: less than three months) for hedging purpose. The Group utilises a variety of forward foreign currency contracts to hedge its exposure to foreign currencies on a regular basis. In response to the rapid volatility in the foreign exchange market, the Group adopted a strategy of squaring RMB positions at earlier stage to reduce the currency exposure.

As at 31 December 2022, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US$85,000,000 (2021: US$375,000,000), and their fair values are estimated to be approximately US$228,000 assets (2021: US$570,000 assets), and are included as other receivables (2021: other receivables), at the end of the reporting period. The contracts mainly related to buying of MXN (2021: RMB and MXN) with maturities in first quarter (2021: first and second quarters) of the following year.

The monetary assets and liabilities of group entities, which are denominated in a currency (i.e. RMB, INR and New Taiwan Dollar) other than their respective functional currency, are mainly cash and cash equivalents, trade and other receivables, trade and other payables and bank borrowings, the carrying amounts are summarised as follows:

	2022 **US$'000**	2021 US$'000
Assets	**2,038,107**	1,543,829
Liabilities	**(1,504,408)**	(1,101,363)

As at 31 December 2022 and 2021, majority of Group's bank borrowings were denominated in US$, bank borrowings denominated in a currency other than their respective functional currency were included in the monetary liabilities disclosed above.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Exchange rate sensitivity

At the end of the reporting period, in respect of monetary items (excluding derivatives) denominated in currency other than the functional currency of respective group entities, if exchange rates of the functional currency against US$ had been appreciated/depreciated by 3% (2021: 3%) and all other variables were held constant, the Group's post-tax (loss) profit would increase/decrease by approximately US$15,841,000 (2021: US$11,179,000) for the year and the Group's translation reserve would increase/decrease by US$85,657,000 (2021: US$96,276,000) for the year. In the current year, global currency market was tremendously volatile. Exchange rates of US$ versus other currencies fluctuated over the year which affected the translation of the monetary items, such as forward foreign exchange contracts, trade and other receivables and bank borrowings of the Group, especially RMB and INR (2021: RMB and INR), RMB/US$ exchange rate ranged between 0.1393 and 0.1582 and INR/US$ exchange rate ranged between 0.0121 and 0.0134 (2021: RMB/US$ exchange rate ranged between 0.1522 and 0.1568 and INR/US$ exchange rate ranged between 0.0133 and 0.0138) in the current year. The effect of such fluctuation is closely monitored by the management of the Group to minimise the related effect on the overall result of the Group.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at reporting period and in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancement to cover its credit risks associated with its financial assets.

Trade receivables arising from contracts with customers

A major portion of the Group's trade receivables are receivables from industry leaders or multinational customers with good financial background. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the management considers that the Group's credit risk is significantly reduced.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on debtors credit-impaired and certain debtor with increasing credit risk individually and/or based on provision matrix for remaining debtors. Details of the quantitative disclosures are set out below in this note.

Bank deposits and bank balances

The credit risk on bank deposits and bank balances is limited because the counterparties are banks with higher credit ratings and assigned by international credit-rating agencies. The Group assessed 12m ECL for bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank deposits and bank balances is considered to be insignificant and therefore no loss allowance was recognised.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Other receivables

For other receivables and deposits, the management makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2022 and 2021, the Group assessed the ECL for other receivables and deposits are insignificant and thus no loss allowance is recognised.

The tables below detail the credit risk exposures of the Group's financial assets, which included bank deposits, bank balances, other receivables and trade receivables, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
					2022	2021
					US$'000	US$'000
Financial assets at amortised cost						
Bank deposits	*28*	Ba3–Aa3	N/A	12m ECL	**24,280**	14,327
Bank balances	*28*	Ba3–A1	N/A	12m ECL	**1,825,109**	1,884,719
Other receivables	*21*	N/A	*(note a)*	12m ECL	**36,594**	94,459
Trade receivables	*21*	N/A	*(note b)*	Lifetime ECL (not credit-impaired)	**1,736,588**	1,699,541
			(note b)	(credit-impaired)	**7,946**	8,676

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes:

(a) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. Based on the historical default rate, repayment history and forecast of future condition on economy and debtors, the directors of the Company considered the expected credit loss for other receivables is immaterial.

(b) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors credit-impaired and certain debtor with increasing credit risk, the Group determines the expected credit losses on these items by using a provision matrix. The Group uses debtors' past due status to assess the impairment for its customers because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

As at 31 December 2022, the management had assessed the ECL of trade receivable due from HMD with a gross carrying amount of US$226,428,000 individually. Management had considered that due to deterioration of HMD's financial performance, there was a significant increase in credit risk of the trade receivables due from HMD. Management had appointed an external valuer to assist in the estimation of the ECL provision of the trade receivable by determining an appropriate probability of default rate, estimated loss given default rate and forward looking adjustments. Based on the result of the assessment, a lifetime ECL (not credit-impaired) of US$77,465,000 was recognised for the year ended 31 December 2022.

During the year ended 31 December 2022, the Group recognised ECL of US$3,069,000 (2021: US$1,672,000), based on the provision matrix on the remaining balance of trade receivables that are not individually assessed. Average loss rates of 0.05% to 37.66% (2021: 0.02% to 12.80%) were applied by the Group to the trade receivable with gross carrying amount of US$1,510,160,000 (2021: US$1,699,541,000) which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired).

Debtor that is credit-impaired, which was evident to management the debtor was in financial difficulty, with gross carrying amount of US$7,946,000 as at 31 December 2022 (2021: US$8,676,000) was assessed individually. Impairment allowance of US$7,946,000 (2021: US$8,676,000) was made on this credit-impaired debtor which was the differences between the gross carrying amount and the cash flow that the Group expects to receive.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes: (Continued)

(b) *(Continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) US$'000	Credit-impaired US$'000	Total US$'000
As at 1 January 2021	2,373	5,510	7,883
Changes due to financial instruments recognised as at 1 January 2021:			
— Impairment losses reversed	(797)	–	(797)
Impairment losses recognised for new financial assets originated	2,469	3,007	5,476
Exchange adjustments	(79)	159	80
As at 31 December 2021	3,966	8,676	12,642
Changes due to financial instruments recognised as at 1 January 2022:			
— Impairment losses reversed	(3,500)	–	(3,500)
Impairment losses recognised for new financial assets originated	84,034	–	84,034
Exchange adjustments	(778)	(730)	(1,508)
As at 31 December 2022	83,722	7,946	91,668

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate cash and cash equivalents, banking facilities and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are one to seven months (2021: one to six months) and the maturity periods of other financial liabilities and lease liabilities are within three months to five years. Out of the total bank borrowings, bank borrowings of US$195,000,000 (2021: US$97,010,000) contain a repayment on demand clause.

As at 31 December 2022, the Group has available unutilised banking facilities of approximately US$1,733,244,000 (2021: US$1,623,069,000). There was no pledge of assets in relation to the banking facilities as at 31 December 2022 and 2021.

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments

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

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as different levels of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements.

Financial assets	Fair value as at 31.12.2022 US$'000	Fair value as at 31.12.2021 US$000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Equity instrument at FVTPL	**Unlisted equity investments — Nil**	Unlisted equity investments — 1,900	Level 3	N/A (2021: Market approach)	N/A (2021: Enterprise value-to-revenue multiple and discount for lack of control ("DLOM"))	N/A (2021: The higher the enterprise value-to-revenue multiple, the higher the fair value, and vice versa) N/A (2021: The lower the DLOM, the higher the fair value, and vice versa)
Forward foreign exchange contracts classified as other receivables	**Assets — 228**	Assets — 570	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
Equity instruments at FVTOCI	**Listed equity investments — 2,060**	Listed equity investments — 11,514	Level 1	Quoted bid prices in an active market	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments — 24,441**	Unlisted equity instruments — 6,087	Level 2	Fair value derived from market value of the shares of equity instruments in recent investment transactions	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments — 117,109**	Unlisted equity instruments — 207,738	Level 3	Option-pricing method with expected volatility, expected life and risk-free rate as the key inputs to allocate equity value of investees determined using income approach — discounted cash flow method was used to capture the present value of the expected return	Budged sales and gross margin taken into account the relevant industry growth forecasts and financial budgets approved by the investee's management and expectation for the market development Terminal growth rate, taking into the account the management's experience and knowledge of market conditions of the specific industries Weighted average cost of capital ("WACC") ranged from 13.61% to 40.00% (2021: ranged from 17.42% to 40.00%) respectively	The higher the budgeted sales and gross margin, the higher the fair value, and vice versa The higher the terminal growth rate, the higher the fair value, and vice versa The lower the WACC, the higher the fair value, and vice versa

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL US$'000	Financial assets at FVTOCI US$'000
At 1 January 2021	–	192,430
Net fair value gains		
— in profit or loss	1,900	–
— in OCI	–	12,513
Purchases	–	1,000
Transfer into Level 3 *(note a)*	–	1,722
Exchange adjustments	–	73
At 31 December 2021	1,900	207,738
Net fair value loss		
— in profit or loss	(1,900)	–
— in OCI	–	(81,415)
Transfer into Level 3 *(note a)*	–	2,475
Transfer out from Level 3 *(note b)*	–	(11,300)
Exchange adjustments	–	(389)
At 31 December 2022	–	117,109

Notes:

(a) For the relevant financial assets, the recent transaction prices used in prior year to determine the fair value was no longer available, therefore, the valuation method was changed and the fair value hierarchy was changed from Level 2 to Level 3.

(b) For the relevant financial asset, the recent transaction price was used to determine the fair value during the year, therefore the valuation method was changed and the fair value hierarchy was changed from Level 3 to Level 2.

For the other financial assets and financial liabilities, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Of the total gains or losses for the year ended 31 December 2022, loss of US$1,900,000 (2021: gain of US$1,900,000) relates to financial assets at FVTPL held at the end of the current reporting period. Fair value gains on financial assets at FVTPL are included in 'other income, gains and losses'.

Included in other comprehensive income, loss of US$81,415,000 (2021: gain of US$12,513,000) relates to unlisted equity securities classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of revaluation reserve.

33. FINANCIAL INSTRUMENTS *(Continued)*

(d) 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.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payables *(included in other payables)*	**Bank borrowings**	**Lease liabilities**	**Total**
	US$'000	US$'000	US$'000	US$'000
		(note 24)	*(note 23)*	
At 1 January 2021	262	929,068	24,211	953,541
Financing cash flows	(7,317)	(73,654)	(11,761)	(92,732)
New lease entered (note 14)	–	–	13,890	13,890
Interest expenses	7,754	–	1,123	8,877
Exchange adjustments	–	2,076	(4,287)	(2,211)
At 31 December 2021	**699**	**857,490**	**23,176**	**881,365**
Financing cash flows	**(27,085)**	**(171,737)**	**(4,925)**	**(203,747)**
New lease entered (note 14)	**–**	**–**	**1,365**	**1,365**
Leases terminated (note 14)	**–**	**–**	**(14,253)**	**(14,253)**
Interest expenses	**28,611**	**–**	**967**	**29,578**
Exchange adjustments	**–**	**(9,699)**	**(2,569)**	**(12,268)**
At 31 December 2022	**2,225**	**676,054**	**3,761**	**682,040**

35. RELATED PARTY TRANSACTIONS

(a) Other than as disclosed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties, including Hon Hai and its subsidiaries and associates other than the members of the Group.

	2022 US$'000	2021 US$'000
Hon Hai		
Sales of goods	**1,637,054**	15
Purchase of goods	**153,663**	148,266
Sales of property, plant and equipment	**4**	–
Purchase of property, plant and equipment	**–**	324
Lease expense — real properties *(note)*	**667**	739
Subcontracting income	**28,250**	1,027
Consolidated services and subcontracting expense	**13,926**	13,041
General services income	**839**	767
Subsidiaries of Hon Hai		
Sales of goods	**315,830**	1,679,618
Purchase of goods	**305,896**	244,054
Purchase of property, plant and equipment	**1,957**	2,021
Sales of property, plant and equipment	**957**	15,613
Lease income — real properties	**5,401**	5,783
Lease income — non-real properties	**–**	12
Lease expense — real properties *(note)*	**4,846**	5,936
Lease expense — non-real properties *(note)*	**3,584**	5,131
Subcontracting income	**33,465**	31,340
Consolidated services and subcontracting expense	**70,932**	95,829
General services income	**763**	216
General services expense	**20,189**	22,031
Associates of Hon Hai		
Sales of goods	**840,498**	945,521
Purchase of goods	**365,400**	592,776
Purchase of property, plant and equipment	**–**	68
Sales of property, plant and equipment	**106**	28
Lease income — real properties	**61**	80
Lease expense — real properties *(note)*	**86**	80
Lease expense — non-real properties *(note)*	**–**	6
Subcontracting income	**15,291**	5,815
Consolidated services and subcontracting expense	**1,196**	1,544
General services expense	**6**	–

Note: The amounts represent short-term lease expenses during the year.

35. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2022 US$'000	2021 US$'000
Trade receivables:		
Hon Hai	**581,001**	1,518
Subsidiaries of Hon Hai	**23,268**	700,853
Associates of Hon Hai	**143,433**	148,086
	747,702	850,457
Other receivables:		
Hon Hai	**28**	37
Subsidiaries of Hon Hai	**131**	2,990
Associates of Hon Hai	**25**	32
	184	3,059
	747,886	853,516
Trade payables:		
Hon Hai	**33,210**	67,765
Subsidiaries of Hon Hai	**116,682**	179,481
Associates of Hon Hai	**75,396**	117,327
	225,288	364,573
Other payables:		
Hon Hai	**70**	73
Subsidiaries of Hon Hai	**2,225**	1,727
Associates of Hon Hai	**8**	9
	2,303	1,809
	227,591	366,382

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

35. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2022 US$'000	2021 US$'000
Short-term benefits	**4,760**	5,358
Share-based payments	**684**	513
	5,444	5,871

(d) During the year, the Group enter into the following transactions with a joint venture:

	2022 US$'000	2021 US$'000
Sales of goods	**40,746**	–
Other income	**2,790**	–
Other expense	**192**	–
	43,728	–

The amount due from a joint venture was US$24,321,000 (2021: US$9,208,000), which was interest-free, with credit period of 90 days and included in trade and other receivables as at 31 December 2022.

(e) During the year, the Group enter into the following transactions with associates:

	2022 US$'000	2021 US$'000
Sales of goods	**461**	4,951
Purchase of goods	**5**	7,061
Other income	**1,897**	3,427
Other expense	**2**	–

During the year ended 31 December 2021, dividend of US$10,857,000 was declared by an associate to the Group, which was subsequently cancelled during the year ended 31 December 2022.

The amounts due from associates were US$539,000 (2021: US$16,097,000), which were interest-free, repayable on demand and included in trade and other receivables as at 31 December 2022.

36. RETIREMENT BENEFITS PLANS

Majority of the employees of the Company's subsidiaries are members of state-managed retirement benefit schemes operated by the government in the PRC. These subsidiaries in the PRC are required to contribute a specified percentage ranging from 5% to 20% of their payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

Certain subsidiaries of the Company operate defined benefit plans in Taiwan and Korea. Under the schemes, the employees are entitled to retirement benefits on attainment of a retirement age ranging from 55 to 60. The most recent actuarial valuations of plan assets and the present values of the defined benefit obligations were carried out at 31 December 2022 by independent valuers, Greatfine Wealth Management Consulting Inc. and Aon Hewitt Korea, respectively. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The principal actuarial assumptions used were as follows:

	2022	2021
Discount rate	**1.00%**	1.00%
Expected rate of salary increases	**3.00%**	3.00%

The actuarial valuations showed that the market value of plan assets was US$5,797,000 (2021: US$5,982,000) and that the actuarial value of these assets represented 203% (2021: 175%) of the benefits that had accrued to members.

The Group also operates a number of defined contribution schemes in other overseas locations. Arrangements for these staff retirement benefits vary from country to country and are made in accordance with local regulations and custom.

37. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme of the Company

In order to ensure the continuity of a share option scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a share option scheme (the "Option Scheme") on 26 November 2013, which will expire on 25 November 2023, unless otherwise terminated in accordance with its terms.

Under the Option Scheme, the board of directors of the Company or its duly authorised officer(s) or delegate(s) may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The option granted will be subject to vesting period (as determined by the board of directors of the Company or its duly authorised officer(s) or delegate(s) at the time of granting the option) of up to six years or such other period which must not be more than ten years from the date of grant of the relevant option. In addition, the Company may, from time to time, grant share options to third party service providers for services provided by them to the Group.

The total number of shares which may initially be issued upon the exercise of all options to be granted under the Option Scheme and any other share option scheme(s) (collectively, the "Option Schemes") adopted by the Company must not in aggregate exceed 10% of the total number of issued shares of the Company as of the date of listing of its shares on the Stock Exchange or the adoption date (as the case may be), i.e. must not exceed 757,380,227 shares under the Option Scheme. Subject to the approval of the shareholders of the Company in general meeting, the limit may be refreshed to 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Schemes of the Company must not in aggregate exceed 30% of the number of issued shares of the Company from time to time. The maximum number of shares of the Company in respect of which options granted and to be granted to each eligible person under the Option Schemes of the Company in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to a substantial shareholder or an independent non-executive director, or their respective associates, in the 12-month period up to and including the date of such grant in aggregate over 0.10% of total number of issued shares of the Company from time to time and have an aggregate value exceeding HK$5,000,000, such further grant of options will be required to be approved by the shareholders of the Company in general meeting.

Under the Option Schemes, options granted must be taken up within 30 days after the date of offer upon payment of HK$1.00 per offer. The Option Schemes do not contain any minimum period for which an option must be held before it can be exercised, though such minimum period may be specified by the board of directors of the Company or its duly authorised officer(s) or delegate(s) under the Option Scheme at the time of grant.

The exercise price of the Option Schemes is determined by the board of directors of the Company, and shall be the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Currently, no options have been granted under the Option Scheme. No share option is exercisable as at 31 December 2022 and 2021.

No expense in relation to the share options granted by the Company was recognised by the Group for the years ended 31 December 2022 and 2021.

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

(b) Equity-settled share option scheme of Bharat FIH Limited ("BFIH")

On 28 May 2021, the Company adopted a share option scheme at the subsidiary level of the Group relating to BFIH (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited, an indirect subsidiary of the Company incorporated in India) (the "BFIH Share Option Scheme"), which will expire on 27 May 2031.

The purpose of the BFIH Share Option Scheme is to attract and retain capable and skilled and experienced personnel, to incentivize them to remain with BFIH and its subsidiaries (the "BFIH Group") and to give effect to the BFIH Group's customer-focused and performance-driven corporate culture, and to motivate them to strive for the future development and expansion and long-term success of the BFIH Group, by providing them with the opportunity to acquire equity interests in BFIH.

Subject to the terms of the BFIH Share Option Scheme, the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) may, at its absolute discretion, offer to grant to (a) the employees as designated by BFIH (including directors (other than independent directors as defined under applicable Indian regulations) of the BFIH Group; and (b) the third party service providers of the BFIH Group, comprising the employees (including directors (other than independent directors or the foreign equivalent) and members of senior management) of a direct or indirect holding company (as defined under the India Companies Act) of BFIH (including, for the avoidance of doubt, the Company and Hon Hai), but excluding in both cases: (i) an employee who is a promoter or a person belonging to the promoter group; and (ii) a director who either himself or through his relative or through any body corporate, directly or indirectly, holds more than 10% of the outstanding/issued equity shares of BFIH) (collectively, the "BFIH Eligible Persons") options to subscribe for BFIH shares on the terms set out in the BFIH Share Option Scheme.

The total number of BFIH shares in respect of which options may be granted under the BFIH Share Option Scheme shall be 154,984,498 shares, representing 6.51% of the total number of issued shares of BFIH as at the date of this report of the directors.

The total number of BFIH shares issued and to be issued upon exercise of options granted and to be granted to each grantee in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of BFIH from time to time.

The minimum period for which the options must be held before they can be exercised and the period within which the options must be exercised (the "BFIH vesting period") will be specified by the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) at the time of the offer of grant. The BFIH vesting period is from a minimum of one year and up to six years (or such other period which must not be less than one year nor more than 10 years from the date of grant of the relevant options) as determined by the board of directors of BFIH (or its duly authorised committee, officer(s) or delegate(s)) at the time of granting the relevant options. The minimum vesting period of one year shall not apply in case of early vesting of options owing to the grantee's death or permanent incapacity, or ill-health, injury or disability not attributable to the grantee's own misconduct. An offer of grant of an option under the BFIH Share Option Scheme must be accepted by the date being a date not more than 30 days after the date of the offer. No amount is payable on acceptance of an option.

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

(b) Equity-settled share option scheme of BFIH *(Continued)*

The amount payable for each BFIH share to be subscribed for upon exercise of an option under the BFIH Share Option Scheme shall be determined by the board of directors of BFIH in its absolute discretion and notified to a BFIH Eligible Person, after having taken into account (among other things) the nominal value and then market value of a BFIH share, provided that such amount shall not be lower than the nominal value of a BFIH share.

BFIH has proposed that certain amendments be made to the BFIH Share Option Scheme to take into account certain Indian regulatory requirements which would be applicable to BFIH upon the completion of the proposed spin-off and the amendments to Chapter 17 of the Listing Rules. Details of the proposed amendments are set out in circular dated 1 December 2022, which were subsequently approved by shareholder on 23 December 2022.

A summary of movements of the number of share options under the BFIH Share Option Scheme for the year is as follows:

Date of grant	Balance at 1 January 2021	Granted during the year ended 31 December 2021	Balance at 31 December 2021	Cancelled during the year ended 31 December 2022	Balance at 31 December 2022	Vesting period	Exercise price per share INR	Exercisable period
Granted to directors of the Company on 23 December 2021	–	24,000,000	24,000,000	(24,000,000)	–	1–3 years	20	23 December 2022 to 30 November 2029
Granted to employees (other than directors of the Company) on 1 December 2021	–	59,110,000	59,110,000	(59,110,000)	–	1–3 years	20	1 December 2022 to 30 November 2029
	–	83,110,000	83,110,000	(83,110,000)	–			
Exercisable at 1 January 2021, 31 December 2021 and 31 December 2022			–					

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

(b) Equity-settled share option scheme of BFIH *(Continued)*

The fair value of INR11 per share option was calculated using the Black-Scholes model. The inputs into the model were as follow:

	1.12.2021 and 23.12.2021
Share price at grant date	INR20
Exercise price	INR20
Expected volatility	52.46%
Expected life	5.1 years
Risk free rate	5.68%
Expected dividend yield	0

Expected volatility was determined by using reference of the historical volatility of the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Black-Scholes model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option values with different variables of certain subjective assumptions.

As at 31 December 2022, no options are outstanding under the BFIH Share Option Scheme. No share option is exercisable as at 31 December 2022 and 31 December 2021.

Pursuant to approvals from the board of directors and the shareholders of BFIH and with the consent of the grantees, all of the share options granted by BFIH have been cancelled with effect from 12 June 2022.

The Group recognised US$9,516,000 share options expenses for the year ended 31 December 2022 (2021: US$489,000) in relation to share options granted and the subsequent cancellation by BFIH.

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

(c) Equity-settled share option scheme of Mobile Drive Technology Co., Ltd.

On 28 May 2021, the Company adopted a share option schemes at the subsidiary level of the Group relating to Mobile Drive Technology Co., Ltd. (formerly an indirect subsidiary of the Company incorporated in Taiwan and subsequently became a subsidiary of Mobile Drive) (the "Mobile Drive Share Option Scheme"), which have been subsequently cancelled on 30 July 2021.

During the period from 28 May 2021 to 30 July 2021, no options have been granted under the Mobile Drive Share Option Scheme. No share option is exercisable as at 31 December 2021.

No expense in relation to the Mobile Drive Share Option Scheme was recognised by the Group for the years ended 31 December 2021.

(d) Other share-based payment plan

In order to ensure the continuity of a share scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a share scheme (the "Share Scheme") on 26 November 2013 pursuant to which the Company may grant free shares to the directors or employees of the Company or its subsidiaries or third party service providers including employees of Hon Hai and any of its subsidiaries.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by Board) on 23 December 2021, the Company offered 7,328,361 ordinary shares to a total of two beneficiaries pursuant to the Share Scheme of which 7,328,361 ordinary shares were granted with lock-up periods, i.e. vesting period with service condition up to 10 January 2022 from the grant date. No consideration was payable on acceptance of offer of the shares. 7,328,361 ordinary shares were purchased by the trustee of the Share Scheme from the market in January 2022.

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

Equity-settled share-based payments of US$684,000 (2021: US$513,000) was recognised during the year ended 31 December 2022.

38. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2022 and 2021:

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2022	2021	**2022**	2021	
Chiun Mai Communication Systems, Inc.	Limited company	Taiwan	NT$1,500,000,000	–	–	**87.06%**	87.06%	Design and manufacture of handsets
FIH (Hong Kong) Limited	Limited company	Hong Kong/PRC	HK$155,146,001	–	–	**100%**	100%	Trading of handsets
FIH Co., Ltd.	Limited company	Taiwan	NT$218,000,000	**100%**	100%	–	–	Provision of services to group companies
FIH Mexico Industry SA de CV	Limited company	Mexico	MXN2,007,283,685	–	–	**100%**	100%	Manufacture of handsets
富智康精密組件(北京)有限公司 (FIH Precision Component (BeiJing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$68,800,000	–	–	**100%**	100%	Manufacture of handsets
宏訊電子工業(杭州)有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$126,800,000	–	–	**100%**	100%	Manufacture of handsets
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$184,720,000	–	–	**100%**	100%	Manufacture of handsets
S&B Industry, Inc.	Corporation	USA	US$31,817,356	–	–	**100%**	100%	Repair services
Success World Holdings Limited	Limited company	Hong Kong	HK$1,049,044,500	**100%**	100%	–	–	Investment holding
FIH do Brasil Indústria e Comércio de Eletrônicos Ltda.	Limited company	Brasil	BRL550,532,590	–	–	**100%**	100%	Manufacture of handsets
富智康(南京)通訊有限公司 (FIH (Nan Jing) Communications Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$17,500,000	–	–	**100%**	100%	Research and development; sales
貴州富智康精密電子有限公司 (Guizhou FIH Precision Electronics Co., Ltd.*)	Wholly foreign owned enterprise	PRC	RMB400,000,000	–	–	**100%**	100%	Research and development; sales
BFIH (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited)	Public company	India	INR23,809,449,800	–	–	**100%**	100%	Manufacture of handsets

38. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company Directly 2022	Directly 2021	Indirectly 2022	Indirectly 2021	Principal activities
Rising Stars Hi-Tech Private Limited	Limited company	India	INR500,000,000	–	–	100%	100%	Manufacture of electronic products
Bharat Taiwan Corporation 台灣躍星股份有限公司 (formerly known as Rising Stars Taiwan Corporation)	Limited company	Taiwan	NT$28,000,000	–	–	100%	100%	Research and development
富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$75,000,000	–	–	100%	100%	Manufacture of handsets
富泰京精密電子(煙台)有限公司 (Futaijing Precision Electronics (Yantai) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$20,000,000	–	–	100%	100%	Manufacture of handsets
富智康精密電子(廊坊)有限公司 (FIH Precision Electronics (Lang Fang) Co., Ltd.)	Sino-foreign jointly owned enterprise	PRC	US$475,500,000	–	–	100%	100%	Manufacture of handsets
衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd*)	Sino-foreign jointly owned enterprise	PRC	RMB50,000,000	–	–	100%	100%	Manufacturing, import and export
Fushan Technology (Vietnam) Limited Liability Company	Limited company	Vietnam	VND1,992,300,000,000	–	–	100%	100%	Manufacture of handset

* for identification purposes only

No debt security has been issued by any of the subsidiaries at any time during the year or is outstanding at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other insignificant subsidiaries which are mainly inactive or engaged in investment holding would, in the opinion of the directors, result in particulars of excessive length.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022 US$'000	2021 US$'000
ASSETS		
Investments in subsidiaries	**2,250,066**	2,239,066
Other receivables	**3,246**	6,020
Amounts due from subsidiaries	**10,000**	272,327
Bank balances and cash	**5,735**	1,924
	2,269,047	2,519,337
LIABILITIES		
Bank borrowings	**513,800**	540,300
Other payables	**5,681**	4,238
	519,481	544,538
NET ASSETS	**1,749,566**	1,974,799
CAPITAL AND RESERVES		
Share capital	**317,550**	320,400
Share premium	**1,175,203**	1,182,629
Shares bought-back pending cancellation	**(1,170)**	(1,170)
Other reserves	**257,983**	472,940
TOTAL EQUITY	**1,749,566**	1,974,799

Under the Companies Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to approximately US$1,432,016,000 (2021: US$1,653,886,000), consisted of share premium of approximately US$1,175,203,000 (2021: US$1,182,629,000) and retained profits of approximately US$257,983,000 (2021: US$472,427,000), less shares bought-back pending cancellation of approximately US$1,170,000 (2021: US$1,170,000).

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in reserves

	Share premium US$'000	Shares bought-back pending cancellation US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2021	1,196,955	(2,746)	–	481,077	1,675,286
Loss for the year	–	–	–	(8,650)	(8,650)
Repurchase of ordinary shares	–	(18,150)	–	–	(18,150)
Cancellation of ordinary shares	(14,326)	19,726	–	–	5,400
Recognition of equity settle share-based payment *(note 37)*	–	–	513	–	513
Balance at 31 December 2021	1,182,629	(1,170)	513	472,427	1,654,399
Loss for the year	–	–	–	(214,444)	(214,444)
Repurchase of ordinary shares	–	(10,276)	–	–	(10,276)
Cancellation of ordinary shares	(7,426)	10,276	–	–	2,850
Payment made for equity-settled share-based payment	–	–	(1,197)	–	(1,197)
Recognition of equity settle share-based payment *(note 37)*	–	–	684	–	684
Balance at 31 December 2022	1,175,203	(1,170)	–	257,983	1,432,016

FINANCIAL SUMMARY

	For the year ended 31 December				
	2018 (US$'million) *(Note)*	2019 (US$'million) *(Note)*	2020 (US$'million)	2021 (US$'million)	**2022 (US$'million)**
Results					
Revenue	14,868.13	14,378.66	8,934.75	8,582.56	**9,394.32**
(Loss) profit from operations	(647.55)	32.96	(136.80)	79.04	**(30.11)**
Interest expenses	(27.61)	(37.55)	(12.18)	(8.88)	**(29.58)**
(Loss) profit before tax	(675.16)	(4.59)	(148.98)	70.16	**(59.69)**
Income tax expense	(3.91)	(27.93)	(24.86)	(13.74)	**(12.45)**
(Loss) profit after tax and before non-controlling interests	(679.07)	(32.52)	(173.84)	56.42	**(72.14)**
Non-controlling interests	(0.01)	(0.11)	(0.10)	(0.09)	**0.03**
Net (loss) profit for the year	(679.08)	(32.63)	(173.94)	56.33	**(72.11)**

	2018 (US$'million)	2019 (US$'million)	2020 (US$'million)	2021 (US$'million)	**2022 (US$'million)**
Assets and liabilities					
Total assets	8,904.36	7,002.52	6,032.07	5,979.69	**5,510.29**
Total liabilities	(6,754.08)	(4,901.92)	(3,950.00)	(3,812.42)	**(3,722.52)**
Non-controlling interests	(5.94)	(6.11)	(6.64)	(7.31)	**(6.12)**
Capital and reserves	2,144.34	2,094.49	2,075.43	2,159.96	**1,781.65**

Note: The financial information for the year 2019 and 2018 was from continuing operations.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

This corporate governance report is issued as of 10 March 2023.

The Company has adopted the corporate governance compliance manual (the "Manual") since 15 April 2010, as amended and supplemented from time to time. The purpose of the Manual is to set out the corporate governance practices from time to time adopted by the Company and the compliance procedures that apply in specific areas, with the aim to providing an overview of the requirements of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (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.

During the year ended 31 December 2022 (the "year under review"), as an overview, the Company has adopted and implemented the following principal documents (each as more particularly described in this report) for the purposes of corporate governance enhancements and also compliance with applicable requirements under the CG Code:

- Corporate vision, mission and values, together with its revised version;
- Overview on mechanisms for independent views and inputs;
- Directors' remuneration policy;
- Revised terms of reference of the remuneration committee;
- Revised board diversity policy;
- Revised form of director's letter of appointment; and
- Revised shareholders communication policy.

CORPORATE VISION, MISSION AND VALUES AND ALIGNMENT WITH CORPORATE CULTURE

Corporate Vision, Mission and Values

As an active member of the Responsible Business Alliance (a non-profit industry coalition comprised of electronics, retail, auto and toy companies committed to supporting the rights and well-being of workers and communities worldwide affected by the global supply chain), the Hon Hai Technology Group (as the Company's ultimate controlling shareholder, together with its subsidiaries and associates, collectively as the "Hon Hai Technology Group") is dedicated to fulfilling its responsibilities as a good corporate citizen and a global industry leader and to integrating good governance practices in all aspects of its operations. As a member of the Hon Hai Technology Group, the Company and its subsidiaries (collectively as the "Group") and their operations are guided by (among other things) the Hon Hai Technology Group's corporate vision, mission and values.

Vision: Creating comprehensive smart living experiences for the Group's customers across the globe.

Mission: The Group's corporate mission focuses on five aspects:

(i) Long-term value creation: The Group believes in long-term value creation for its people and its customers to drive long-term sustainable business growth.

(ii) Business sustainability: The Group is devoted to establishing a solid and stable foundation for sustainable growth, though stability does not mean that the Group is at a standstill. The Group is ready to embrace change through strategic business planning and execution.

(iii) Constant pursuit of improvement: The Group and its employees will always strive to succeed and improve the business to ensure global competitiveness within the industry.

(iv) Innovation: The Group is committed to the research and development of emerging technologies, the acquisition and application of new knowledge, and protection of intellectual properties in pursuit of technological and science breakthroughs.

(v) Global perspective: The Group is one of the global industry leaders, and offers its customers advanced, integrated technologies and a strong production scale across its strategic global network.

Values: The Group operates its business with care, confidence, determination and integrity:

(i) Care: The Group cares and respects others and applies these values to its day-to-day operations.

(ii) Confidence: The Group always acts with a strong desire to succeed and is confident that it can achieve.

(iii) Determination: The Group has an unwavering commitment to deliver against all odds.

(iv) Integrity: The Group does what it says with honesty and integrity.

Alignment with Corporate Culture

The Group's corporate culture is the driving force for achieving its corporate vision, mission and values (forming part of the Manual), all of which underpin the Group's long-term success and sustainable performance where the Group's shareholders/investors, customers, suppliers, employees and other key stakeholders could benefit in the shared value of its business success.

To achieve the Group's vision, mission and values, as well as its long-term success and sustainability as a business and as an organisation to act lawfully, ethically and responsibly across all levels, the Group upholds a corporate culture of integrity and management with dignity. The Group expects its directors, officers and employees to demonstrate high standards of ethical attitudes and behaviours in the Group's operations and relations with its stakeholders. The Company's board of directors (the "Board") and management lead and shape the Group's corporate culture. As the leader of the Company, all directors must understand the Group's corporate culture. As a tone from the top, the directors have acted lawfully, ethically and responsibly with integrity, led by example, and promoted the Group's corporate culture, with an aim to instilling and continually reinforcing such culture with the Group's values of acting lawfully, ethically and responsibly, particularly through the Board's behaviour and attitudes to continuously influence such culture. The Group's senior and middle management should support this by setting the example and conveying the Board's messages and desired culture to their team members.

The Group's corporate culture has been reflected consistently, fostered and developed in various policies, systems and measures implemented and maintained by the Group (including without limitation the Manual, the anti-corruption code of conduct, the whistle-blowing policies and the system of internal controls and enterprise risk management ("ERM")) which are subject to regular review and promoted across the organisation, as well as reinforced by training and appropriate actions (including disciplinary actions in the event of serious or repeated unethical acts or improper conducts), in support and furtherance of the Group's commitment to high standards of ethical attitudes and behaviours in its business conduct and to ensure good practices across the organisation. Please also see the section headed "Accountability and Audit" below for more details about the Group's governance practices.

The Board designates the roles and responsibilities for operating and enforcing these policies, systems and measures, which are functionally designated to, among others, the Board Committees, the Chief Executive Officer, the Chief Operating Officer (if any), the Chief Financial Officer, the ERM Team as well as the corresponding heads/leaders of other functional units namely human resources, supply chain/procurement services, legal and compliance and internal audit departments/divisions. During the year under review, the Company Secretary of the Company obtained the respective confirmations from such heads/leaders that such policies, systems and measures have remained, and would remain, consistent with the Company's corporate vision, mission and values as well as corporate culture.

To build and develop a better corporate culture, the Board should pay attention to accountability, transparency, effective communications, open and bilateral dialogues, proactive engagement, provision of training and also hints of potential cultural weaknesses (e.g. a high rate of staff turnover, a low level of communication/engagement and a lack of transparency within the Group); implement and maintain measures for assessing and monitoring culture and its embedding in the organisation; and evaluate the effectiveness of such measures.

During the year under review, the Group organised a series of training initiatives, including without limitation: (1) training to promote, implement and maintain the Company's corporate vision, mission and values as well as corporate culture across the Group at different workforce levels (comprising senior management, middle management and general staff) to ensure that their behaviours are aligned with the Company's corporate vision, mission and values as well as corporate culture; and (2) refresher and update training to reinforce and develop a stronger culture of compliance, internal controls and ERM within the Group. For details, please refer to "Human Capital — The Group's Greatest Asset — Training and Development", "Our Approach to Sustainability — Anti-corruption and Whistle-blowing Policies" and "Performance Data Table — KPIs B3.1 and B3.2" of the Company's 2022 environmental, social and governance (ESG) report ("2022 ESG Report") as issued and published simultaneously upon the issuance and publication of the Company's 2022 annual report incorporating this report.

In order to promote, implement/enhance and maintain the Company's corporate vision, mission and values as well as corporate culture on the external front vis-a-vis the Group's customers, suppliers, shareholders/investors and other key stakeholders dealing with the Group, in the year under review, the Company published its corporate vision, mission and values on its website, and also covered this "Corporate Vision, Mission and Values and Alignment with Corporate Culture" section in this report.

In addition, the Group is generally committed to fostering an environment of open communications by continuing to explore more cost-effective communication channels and intervals, such as utilising digital communication channels like emails and internal communication platforms, as opposed to physical face-to-face interactions. However, as to the forums available for sharing ideas and concerns on any misconduct or misalignment identified and how they are being dealt with, the channels available under the Group's whistle-blowing policies as mentioned above remain the most appropriate ones where issues/concerns and complaints concerning fraudulent acts, unethical acts or improper business conduct can be raised through such channels, while whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice and all issues/concerns and complaints will be handled confidentially, timely, fairly and professionally by the Group's chief internal auditor for further investigation and appropriate follow-up actions.

The Group assesses and monitors its corporate culture on the basis of different specific indicators, including without limitation: (i) staff turnover rate; (ii) level of communications or engagements across the Board, senior management, middle management and employees at all levels; and (iii) the level of transparency across the Group. For details about (i), please refer to the Performance Data Table (KPI B1.2) of the 2022 ESG Report. For details about (ii) and (iii), please refer to the section headed "Overview on Mechanisms for Independent Views and Inputs" below.

The Group believes that its success as a business and as an organisation is underpinned by its strong corporate governance, solid corporate vision, mission and values as well as positive and progressive corporate culture. During the year under review, the challenging operating environment faced by the Group created a lot of headwinds, and the Group has expected to continue to operate in an environment riddled with external shocks on a global scale. Notwithstanding the foregoing, the Group believes that the Group's resilience lies in its ability to not only traverse adverse conditions but adapt and succeed and stay on course. Through the Group's efforts in promoting and developing the corporate culture upon the basis of its corporate vision, mission and values (particularly the values of confidence and determination) in the year under review, the Group has achieved higher revenue as compared with that in 2021.

Board's Evaluations

On the basis of the views and recommendations from the corporate governance committee, the Board will annually review the Company's corporate vision, mission and values to ensure their implementation and effectiveness. At the meetings held on 23 December 2022 and 10 March 2023 respectively, on the basis of the recommendations from the corporate governance committee as well as the aforesaid confirmations obtained by the Company Secretary, the Board considered that: (1) the Group's vision, mission and values as described above have remained appropriate and effective and relevant to the Company's needs, and have also reflected both the then current regulatory requirements and good corporate governance practices; (2) the Group's corporate culture as described above has remained appropriate and effective as the Group's desired culture in support and furtherance of its corporate vision, mission and values; and (3) the Group's corporate vision, mission and values have continued to align with the Group's corporate culture.

OVERVIEW ON MECHANISMS FOR INDEPENDENT VIEWS AND INPUTS

The Company refers to the mechanisms (the "Mechanisms") which have been established and operated under certain existing policies, systems and measures of the Group to ensure that independent views and inputs have been and will be available to the Board. For the purposes of compliance with Paragraph B.1.4 of Part 2 of the CG Code, an overview of the Mechanisms (forming part of the Manual) is set out in this report.

The Mechanisms are highlighted and summarised as follows:

(a) Communications and Independent Elements within the Board

- The Company's board meeting procedures provide (among other things) that: (1) Board meetings are held no less frequently than four times a year at approximately quarterly intervals; (2) any director of the Company may at any time summon a Board meeting; and (3) any director of the Company may include any matter in the agenda for a regular Board meeting.

- The Company's chairman/acting chairman holds a meeting with the Company's independent non-executive directors without the presence of other directors at least once per year. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the independent non-executive directors.

- The Company's procedures for seeking independent professional advice sets forth the procedures under which a director of the Company can seek independent professional advice in appropriate circumstances at the Company's expense in the furtherance of his duties as the Company's director.

- Every Board member is entitled to have access to the advice and services of the Company's company secretary.

- The Board has a balanced composition of executive and independent non-executive directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

- The Board members do not have any financial, business, family or other material/relevant relationships with each other.

- The Company's policies and procedures governing director's potential/actual conflicts of interests provide (among other things) that in relation to any proposed material transaction involving any Group member which may give rise to any potential/actual conflicts of interests on the part of a director of the Company, such director shall not participate in the discussions relating to such proposed material transaction and shall also abstain from voting on the resolutions proposed in respect thereof.

- The independent non-executive directors of the Company provide the Company with the benefit of a wide range of their skills, expertise and varied backgrounds and qualifications and brought independent judgement on issues of strategic direction, policy, development and performance through their contributions at Board meetings and (as appropriate) committee meetings. In this respect, the Board (on the basis of the recommendations from the Company's nomination committee) annually re-assesses the independence of each of the Company's independent non-executive directors.

(b) Communications between the management and the Board

- Two members of the Company's senior management, namely CHEN Hui Chung, John (the Company's Head of Finance and Treasurer) and TAM Kam Wah, Danny (the Company's Chief Financial Officer ("CFO")) have been invited and participated in Board meetings and Board committee meetings and hence have open dialogues and proactive engagements with the Board members in the meetings, so that senior management's views can be brought to the Board's attention in the decision-making process.

- In addition, the CFO has been providing to the Board: (1) a monthly management update ("MMU") covering (among other things) unaudited monthly management accounts; financial highlights covering turnover breakdown, sales, profit and loss, segment information; and updates on significant investments and projects; (2) at each regular Board meeting, a quarterly business overview and outlook relating to the Group (the "Quarterly Business Overview and Outlook"); and (3) in his own capacity and on behalf of the management, a bi-annually confirmation on the adequacy and effectiveness of the Group's system of internal controls and enterprise risk management. Corresponding communication platforms have been established and maintained accordingly.

- The aforesaid two members of the Company's senior management regularly discuss with each other the Group's performance and material issues/concerns/difficulties (including any material issues/concerns raised to him/them by the Group's middle management and general staff respectively), and frequently participate in the Monthly Business Review (MBR) meetings chaired by the Company's Chief Executive Officer ("CEO") and attended by the Company's Business Control Head, during which the Group's business unit heads/managers report to CEO on the operation and performance of their respective business units and identify the respective problems, difficulties and risks faced by them, whereas CEO critically reviews the same and gives instructions/guidances/recommendations to the respective business unit heads/managers on how to rectify the issues and make improvements. In this respect, CFO cum senior management reviews the MBR meeting papers, minutes and related materials, and also constantly checks with the business unit and functional unit heads/managers as to the latest business outlook, the challenges, their respective issues/concerns, etc. and then includes the relevant information (in case of appropriate escalation, including any material issues/concerns disclosed by the Group's business unit and functional unit heads/managers) in the MMUs, the Quarterly Business Review and Outlook and (as appropriate) the relevant Board meeting agenda items and the corresponding Board meeting papers and related presentation materials. Corresponding communication platforms have been established and maintained accordingly.

(c) Communications between the management and the employees at all levels

- Staff members have the opportunities through different channels (such as routine meetings, performance appraisals, town halls, etc.) to raise issues/concerns to their respective supervisors and managers, who (in case of appropriate escalation) will report the relevant issues/concerns to senior management (direct or through middle management, as the case may be). Please see (b) above regarding escalation of the relevant issues/concerns from middle management through senior management to the Board, as and when necessary.

- The Company's human resources department will continue to explore more cost-effective communication channels and intervals, e.g. utilising digital communication channels like emails and internal communication platforms, as opposed to physical face-to-face interactions.

- In the environmental, social and governance (ESG) context, please refer to the Company's latest ESG report.

(d) Communications between the management and all stakeholders

- Similar to the relevant mechanism under the Company's shareholders communication policy, the Company's company secretary or handling officer of the Company's investor relations department or the Company's relevant functional owner (as the case may be) will review the enquiries, requests, comments or suggestions from the relevant stakeholder and (as appropriate) forward the same: (1) to the Board (through the Company's company secretary, as appropriate) if the same falls within the Board's purview; (2) to the members of the relevant Board committee (through the Company's secretary, as appropriate) if the same falls within such Board committee's area of responsibility; and (3) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

- In the ESG context, please refer to the Company's latest ESG report.

(i) Shareholders/ Investors

The Company has formulated and maintained the shareholders communication policy setting out the framework that the Company has put in place to maintain and promote effective communication and ongoing dialogue with its shareholders so as to enable them to engage actively with the Company through different means of communication and exercise their rights in the capacity as shareholders in an informed manner. The shareholders communication policy provides for (among other things) the procedures by which enquiries, requests, comments or suggestions may be put forward to the Company, and that the annual general meetings and other general meetings of the Company are the primary forum for communication with the shareholders and for the shareholders' exchange of views and participation in discussions with the Board. Please also see the above regarding the mechanism for escalation of the relevant enquiries, requests, comments or suggestions from any such shareholders to the Board, as and when necessary, under the Company's shareholders communication policy.

Moreover, the Company has formulated and maintained the memorandum on shareholder rights (setting out, among other things, its shareholders' right to convene the Company's extraordinary general meeting and right to add resolutions to the meeting agenda) as well as the procedures for shareholders to propose candidates for election as a director of the Company. In particular, the Company's company secretary will escalate such requisition or proposal from any such shareholders to the Board under the Company's memorandum on shareholder rights.

As to the investment community generally, the Company's shareholders communication policy provides (among other things) that for the sake of comprehensiveness, the Company may upon invitation have results briefings and one-on-one meetings with analysts and journalists. Please see the above regarding the mechanism for escalation of the relevant enquiries, requests, comments or suggestions from any such analysts and journalists to the Board, as and when necessary.

(ii) Employees

On top of the Mechanism under (c) above, the Group is committed to creating a good corporate culture and has established and maintained its whistle-blowing policies and the related procedures which apply to the Group's key stakeholders (including all current and former directors, officers and other employees (both permanent and temporary); customers; suppliers; joint venture partners; and other business partners) (the "Whistle-blowing Policies and Procedures"). Issues/concerns and complaints concerning fraudulent acts, unethical acts or improper business conduct can be raised through established hotlines and other channels. Whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice. All issues/concerns and complaints will be handled confidentially, timely, fairly and professionally by the Group's Chief Internal Auditor for further investigation and appropriate follow-up actions. Please see the above regarding the mechanism for escalation of the relevant issues/concerns/complaints from any such key stakeholders to the Board, as and when necessary. The Whistle-blowing Policies and Procedures will be reviewed regularly according to changes to the business and/or regulatory environments and requirements.

In addition, as to anti-corruption, anti-bribery, anti-extortion and anti-money-laundering, the Group has implemented and maintained the code of conduct and the code of ethics (including the anti-corruption code of conduct) which apply to its directors, officers and employees by way of policies, rules and principles, administering appropriate and prohibited individual behaviours within the Group.

Moreover, as a member of the Hon Hai Technology Group (comprising the Company's ultimate controlling shareholder, Hon Hai Precision Industry Co. Ltd., and its subsidiaries and associates), the Group's operations are guided by the Hon Hai Technology Group's corporate social responsibility ("CSR") global code of conduct policy (the "CSR Code"), which sets out the Group's standards relating to (among other things) ethics and management systems which are highlighted and summarised as follows:

- The ethics standards include (among other things) the protection of identity and non-retaliation which requires that: (1) programs that ensure the confidentiality, anonymity and protection of supplier and employee whistleblowers are to be maintained, unless prohibited by law; (2) anonymous complaints with clear and specific descriptions of person/time/place/event are to be accepted and protected; and (3) the Hon Hai Technology Group should have a communication process for its personnel to be able to raise any concerns without fear of retaliation.

- The standards relating to management systems include (among other things): (1) training programmes for managers and workers to implement policies, procedures and improvement objectives, and core curriculums (such as orientation training and CSR Code training) should be arranged for new employees, and employees in service should take at least two hours of CSR Code training per year (for details, please see (e) below); (2) communication with processes for communicating clear and accurate information about the Hon Hai Technology Group's policies, performance, practices and expectations to workers, suppliers and customers; (3) ongoing processes, including an effective grievance mechanism, to assess workers' understanding of and obtain feedback on or violations against practices and conditions covered by the CSR Code and to foster continuous improvement, and also, workers must be given a safe environment to provide grievance and feedback without fear of reprisal or retaliation; and (4) a process to communicate the CSR Code requirements to suppliers.

Compliance with the CSR Code is implemented and monitored by the Company's human resources department, internal audit services department and legal department. Each year, they conduct evaluations and audits against the Group's operations.

(iii) Suppliers

Formal business communications are scheduled and held on a regular basis between the Group's suppliers and the Company's sourcing teams as follows:

- Such communications are held in the form of QBR (Quarterly Business Review) between the parties, usually once in every quarter.
- Key business stakeholders from the Company's sourcing teams and suppliers are invited to participate in QBR, including the Company's sourcing officer responsible for the commodity and the responsible supplier representative.
- Subjects covered in QBR usually are near-term business issues, supply and pricing in the past and coming quarters, performance review, supplier feedback and any outstanding near or longer term challenges.

Also, clear and specific requirements in conducting business with the Group are communicated to all suppliers in legally binding documentation which is required to be signed off between the Group and each of its suppliers and presented in the Group's supplier qualification process, i.e., only after all required documentation is signed can business start to commence between the Group and its supplier. Anti-corruption covenants and undertakings on the part of supplier as well as ethics audit are included in the following documentation:

- Master Purchase Agreement;
- Supplier's Undertaking; and
- Supplier SER (Social and Environmental Responsibility) Audit Checklist.

The Company's internal audit services department shares online the relevant anti-corruption cases taken in by the department through employee service and mass communication application namely "IProud" subscribed by all employees of the Group, and provides guidance on corruption reporting on the same part in the application.

As mentioned in (ii) above:

- the Whistle-blowing Policies and Procedures apply to suppliers. As such, suppliers are able to raise issues/concerns to the Company pursuant to the Whistle-blowing Policies and Procedures. Please see the above regarding the mechanism for escalation of the relevant issues/concerns from any such suppliers to the Board, as and when necessary.
- the protection of identity and non-retaliation under the Whistle-blowing Policies and Procedures applies to suppliers. As such, the confidentiality and anonymity of supplier whistleblowers is protected.

(iv) Customers

Formal business communications are scheduled and held on a regular basis between each of the Group's customers and the Group's handling business unit project manager facing such customer. As to the Group's major customers, such communications include (among others) weekly, quarterly and annual business review meetings; regular product review meetings; regular production, sales and quality review meetings; and other ad-hoc meetings when necessary.

Also, the Group has established and maintained customer complaint handling procedures to respond to product-related and service-related complaints in a systematic manner. Once the factory/business units receive complaints from customers, they will verify the complaint information followed by a check on the production process to investigate into the circumstances underlying and leading to the complaint. If the complaint is evidenced to be valid, the factory/business units will propose remedial measures to customers and conduct performance tracking. After customer complaint cases are closed, the cases are filed for record tracking and continuous enhancement purposes. Please see the above regarding the mechanism for escalation of the relevant complaints from any such customers to the Board, as and when necessary.

In addition, the Group requires (as a prerequisite to the establishment of business relationship) its customers to strictly enforce high standards of anti-corruption.

As mentioned in (ii) above:

- the Whistle-blowing Policies and Procedures apply to customers. As such, customers are able to raise issues/concerns to the Company pursuant to the Whistle-blowing Policies and Procedures. Please see the above regarding the mechanism for escalation of the relevant issues/concerns from any such customers to the Board, as and when necessary.
- the protection of identity and non-retaliation under the Whistle-blowing Policies and Procedures applies to customers. As such, the confidentiality and anonymity of customer whistleblowers is protected.

(v) Community/non-governmental organisations (NGOs)

The Group embraces a culture of sharing, contributing and giving back to the community, and actively participates in social and community-based programmes, including sponsoring and hosting philanthropic activities and volunteer programmes. Through its participation in such programmes and the activities carried out thereunder, the Group has established and maintained ongoing dialogues and engagements with a number of local NGOs. Please see the above regarding the mechanism for escalation of the relevant enquiries, requests, comments or suggestions from any such NGOs to the Board, as and when necessary.

(e) Ongoing training on the Company's desired behaviours

- The Company's Corporate Vision, Values and Mission (as adopted by the Board on 15 March 2022, as amended from time to time) provides (among other things) that the Group's relevant policies, systems and measures are, and would be, promoted across the organisation and particularly the functional owners/stakeholders who are the targets/addressees thereunder and reinforced by training.

- The Company's human resources department has been organising and implementing appropriate training programmes by e-learning (via the "FoxconnEdu" application) or face-to-face classroom learning to the Group's directors, officers and employees, and would continue to regularly review the subject matters and target audience of such training programmes, as and when necessary.

- With reference to the CSR Code, the training programmes include the following: (1) as part of new employee orientation, training programmes relating to the CSR Code, occupational health and safety, and anti-corruption; (2) all employees are also inducted with at least two hours of compulsory anti-corruption training every year; and (3) all employees in service should also take at least two hours of CSR Code training per year.

- In addition to on-job training, the Group also encourages employees' learning by utilising e-learning platform (namely the "FoxconnEdu" application) with more than thousands of training course subjects and materials.

On the basis of the views and recommendations from the corporate governance committee, the Board will annually review the Mechanisms to ensure their implementation and effectiveness. At the meetings held on 23 December 2022 and 10 March 2023 respectively, on the basis of the recommendations from the corporate governance committee as well as the aforesaid confirmations obtained by the Company Secretary, the Board considered that the Mechanisms have been implemented and remained effective and that the Mechanisms have remained relevant to the Company's needs and reflected both the then current regulatory requirements and good corporate governance practice.

CORPORATE GOVERNANCE CODE

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

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 year under review. 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 year under review. 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.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's overall businesses, strategic decisions and performance.

According to the Manual, the respective responsibilities, accountabilities and contributions of the Board and the Company's management have been divided through the adoption of a detailed list of matters reserved specifically for the decision of the Board as more particularly described in page 173 of the Company's 2020 annual report as issued and published on 20 April 2021. Upon the Board's regular review, the aforesaid list of matters has been amended and adopted by the Board on 15 March 2022 with immediate effect, basically to highlight the Group's risks, strategy, reporting and performance relating to the ESG aspect for the Group's system of internal controls and risk management.

Subject to the foregoing as well as the delegation mechanism and delegation of authority forming part of the internal control measures as mentioned above, the Board has delegated its powers to the Company's management for the daily management and operations of the Group. In addition, the Board has delegated its powers to the Board committees. The Board has four Board committees, namely the audit committee, the remuneration committee, the nomination committee and the corporate governance committee, each of which discharges its functions and duties in accordance with the respective terms of reference with reference to the relevant provisions under the CG Code.

The Board currently consists of three executive directors and three independent non-executive directors.

Executive Directors

CHIH Yu Yang *(acting chairman, chief executive officer and chairman of the corporate governance committee)*
KUO Wen-Yi *(member of the corporate governance committee)*
MENG Hsiao-Yi *(chief operating officer)* (resigned with effect from 10 March 2023)
LIN Chia-Yi (also known as Charles LIN) (appointed with immediate effect from 10 March 2023)

Independent Non-executive Directors

LAU Siu Ki *(chairman of the audit committee, remuneration committee and nomination committee respectively)*
Daniel Joseph MEHAN *(member of the audit committee, remuneration committee and nomination committee respectively)*
TAO Yun Chih *(member of the audit committee, remuneration committee and nomination committee respectively)*

The respective biographical details (including, without limitation, gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge) of each director are set out in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2022 annual report incorporating this report).

In accordance with the Articles, any director, appointed either to fill a casual vacancy on or as an addition to the then existing Board, shall hold office only until the first annual general meeting after his/her appointment and shall then be eligible for re-election at such annual general meeting.

In accordance with the Articles, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every director shall be subject to retirement by rotation at an annual general meeting at least once every three years. The directors to retire in the relevant year will be those who have been longest in office since their last re-election.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. The balanced Board composition (comprising three independent non-executive directors out of a total of six Board members) also ensures that strong independence exists across the Board. The biographical details of the directors as at the date of this report as set out in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2022 annual report incorporating this report) demonstrate a diversity of skills, expertise, experience, qualifications and other perspectives appropriate to the requirements of the Company's business.

The Board meets regularly and Board meetings are held at least four times a year to discuss principally the overall strategies as well as the operational and financial performance of the Group, and (in relation to the first and third regular Board meetings) to review and approve the Company's final results and interim results, respectively. At least fourteen days' notice (in relation to each regular Board meeting) or a reasonable notice (in relation to any other ad-hoc Board meeting) is given to all directors and they can include matters for discussion in the agenda. An agenda and accompanying Board papers are sent to all directors at least three days before the intended date of a Board meeting. Every Board member is entitled to have access to Board papers and related materials and access to the advice and services of the company secretary. They can also seek independent professional advice in appropriate circumstances, at the Company's expense. If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical Board meeting (for details about the policies and procedures governing directors' potential/actual conflicts of interests, please refer to page 172 of the Company's 2020 annual report as issued and published on 20 April 2021). The minutes books are kept by the company secretary. Draft and final versions of minutes of the Board meetings were sent to all directors for their comments and records respectively within a reasonable time after the meetings. During the year under review, six Board meetings were held. The meeting attendance of each Board member is set out in the section headed "Board, Committees and General Meetings" below. In addition to the Board meetings, the Board dealt with matters by way of circulation and signing of four sets of written resolutions during the year under review.

CHAIRMAN

The chairman is responsible for providing leadership to the Board and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at the Board meetings. He should take the primary responsibility for ensuring that good corporate governance practices and procedures are established and appropriate steps are taken to provide effective shareholders' communication with the Board. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the non-executive directors. On 23 December 2022, Mr. Chih (the Company's acting chairman) held a meeting with the independent non-executive directors without the presence of the other executive directors.

NON-EXECUTIVE DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors, namely Mr. LAU Siu Ki ("Mr. Lau"), Dr. Daniel Joseph MEHAN ("Dr. Mehan") and Mr. TAO Yun Chih ("Mr. Tao"), setting out the terms and conditions governing his appointment and ancillary matters, as amended and supplemented from time to time.

With reference to the requirement under the Articles regarding directors' retirement from office by rotation at each annual general meeting of the Company as mentioned above, it follows that pursuant to the resolution passed by the Company's shareholders at an annual general meeting of the Company in relation to the re-election of any one director of the Company, the current term of such director's appointment with the Company will commence from the closing of such annual general meeting, ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) such director's next re-election is considered in accordance with the Articles.

Pursuant to the approval of the Board on 27 March 2020 and the approval of the Company's shareholders on 22 May 2020, Mr. Tao, an independent non-executive director of the Company, was re-elected in his capacity for a term commencing from 22 May 2020 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles.

Pursuant to the approval of the Board on 26 March 2021 and the approval of the Company's shareholders on 28 May 2021, Mr. Lau and Dr. Mehan, the independent non-executive directors of the Company, were re-elected in their respective capacities for a term commencing from 28 May 2021 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) their next re-elections are considered in accordance with the Articles.

During the year under review, the non-executive directors (for the time being, being all the independent non-executive directors) provided the Company with the benefit of a wide range of their skills, expertise and varied backgrounds and qualifications and brought independent judgement on issues of strategic direction, policy, development and performance through their contributions at Board meetings and (as appropriate) committee meetings.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year under review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received written annual confirmation of independence from the three independent non-executive directors, Mr. Lau, Dr. Mehan and Mr. Tao, in accordance with Rule 3.13 of the Listing Rules.

Mr. Lau and Dr. Mehan have served the Board for more than nine years, and subject to retirement and re-election under the Articles as mentioned above, the current appointment term of each of Mr. Lau and Dr. Mehan with the Company as an independent non-executive director will be ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles, which meeting is tentatively scheduled to be held in or about May 2024. The Board has therefore kept Mr. Lau's and Dr. Mehan's positions under careful review. Mr. Lau has over 40 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing, whereas

Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development (for further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2022 annual report incorporating this report). On the basis of their respective professional background, skills and experience as well as their diversity of perspectives appropriate to the requirements of the Company's business, Mr. Lau and Dr. Mehan have accumulated in-depth understanding of the Group's business operations and affairs, and have been contributing objectively and giving independent guidance, views and comments to the Company over the past years. For the year under review, Mr. Lau and Dr. Mehan have provided their respective written annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. They have also confirmed no relationship with any directors, senior management members, or substantial or controlling shareholders of the Company. Each of Mr. Lau and Dr. Mehan has not held any executive or management role or position within the Group, and has not been involved in the daily operations and management of the Group during the years that he has been a director, and has clearly demonstrated to the Company his willingness to exercise independent judgement and to provide objective views to the Company.

In this respect, the nomination committee of the Company re-assessed the independence of all the independent non-executive directors in respect of the year under review, and was satisfied (among other things) that each of Mr. Lau, Dr. Mehan and Mr. Tao was and would be independent in accordance with Rule 3.13 of the Listing Rules. On the basis of the recommendation from the nomination committee and up to the date of this report, the Board (after taking into account the above factors) is not aware of the occurrence of any event which would cause it to believe that the independence of any of the independent non-executive directors has been impaired. In relation to Mr. Lau and Dr. Mehan who have served the Board for more than nine years, the Board is not aware of any evidence that the length of tenure of Mr. Lau and Dr. Mehan has had any adverse impact on their independence, nor any circumstance that might influence Mr. Lau and Dr. Mehan in effectively exercising their judgement independently, in either case in their capacity as independent non-executive directors despite their familiarity with the Group's affairs and management. Accordingly, the Board has concluded that Mr. Lau and Dr. Mehan have remained and would continue to remain independent in the context of the Listing Rules. In addition, during the year under review, Mr. Lau and Dr. Mehan spent over 25 hours in 2022 and almost 20 hours in 2022 respectively in training which evidences their efforts to keep abreast of new changes for their continuous professional development with fresh perspectives. Moreover, after a comprehensive review of all the skill sets, experience and qualifications of Mr. Lau and Dr. Mehan respectively, the Board and the nomination committee have believed that Mr. Lau and Dr. Mehan possess the required character, competence, integrity and experience to continue fulfilling their role as the independent non-executive directors of the Company, and their continued tenure will continue to bring valuable insights, advices, expertise and fresh perspectives to the Board.

As disclosed in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2022 annual report incorporating this report, as at the date of this report, Mr. Lau holds the position of independent non-executive director in six other companies which shares are listed on the Stock Exchange. The Board and the nomination committee have considered that Mr. Lau has, throughout the period during which he has been acting as an independent non-executive director of the Company, demonstrated that he has been, and will continue to be, able to devote sufficient time to the Board after having taken into account a variety of considerations, including without limitation the following: (i) given all the above-mentioned directorships are of an independent non-executive nature and do not require Mr. Lau to devote his full time and attention to the day-to-day operation and management of those companies; (ii) Mr. Lau is a competent professional and good at time management who has sound knowledge and skills to efficiently handle seventh or more companies' directorships, and since his appointment as a director of the Company in December 2004, Mr. Lau has demonstrated outstanding time management, planning and organisation skills with the help of sufficient staff support despite overlapping of financial year-end and peak seasons for listed companies, and also, during the year under review, he spent over 25 hours in 2022 in training to effectively facilitate the performance of his appointments; (iii) Mr. Lau has a proven track record of ability and commitment to manage and allocate sufficient time for matters relating to the Group from time to time handled by the Board and/or the Board committees chaired by Mr. Lau (the "Group Matters"), as evidenced by his full attendance at a total of six meetings of the Board (out of six in the year under review), four meetings of the audit committee (out of four in the year under review), one meeting of the nomination committee (out of one in the year under review), two meetings of the remuneration committee (out of two in the year under review), one meeting of the independent board committee (out of one in the year under review), one meeting with the Company's acting chairman and other independent non-executive directors (out of one in the year under review) and two meetings of the Company's shareholders (out of two in the year under review); and (iv) at the request of the Company, Mr. Lau provides an annual confirmation that he has devoted sufficient time and attention to the Group Matters for the year under review and will continue to do so, and in particular, Mr. Lau has disclosed to the Company: (a) the number and nature of offices held by him in public companies, organisations and other significant commitments as more particularly described in his biographical details; (b) the identity of the said companies and organisations; and (c) an indication of time involved in each of such offices, and Mr. Lau will also notify the Company of any change of such information in a timely manner. Further, the Board is of the view that Mr. Lau's directorship experiences in other companies listed on the Stock Exchange would enable him to discharge his duties as an independent non-executive director of the Company more effectively as these experiences are beneficial in equipping him with accumulative knowledge, familiarity and experience on matters such as the latest developments and trends in directors' duties, Listing Rules requirements, regulatory focus and common risks and limitations in management and compliance. The Board will continue to maintain regular communications with Mr. Lau and re-assess Mr. Lau's ability to devote sufficient time to the Group Matters and discussions and deliberations at the Board level on an on-going basis.

The Company's independent non-executive directors comprise individuals of a diverse range of ethnicity as well as cultural, educational and technical backgrounds, coming from Hong Kong, Taiwan and the U.S. and holding academic qualifications from these jurisdictions. They are also equipped with a diverse range of skills, knowledge and experience in different industry and professional fields ranging from corporate governance, corporate finance, financial advisory and management, accounting and auditing, information systems, cyber security, marketing and business development, Internet and mobile application developments and consultancy to start-up growth and management. In addition, their ages diversely range from 48 to 78. For further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2022 annual report incorporating this report.

COMPANY SECRETARY

Ms. Vanessa WONG Kin Yan has been the company secretary of the Company since June 2017. She has over 26 years of extensive working experience in company secretarial and corporate governance matters. Ms. Wong is a full-time employee of the Company and has been supporting the Board (among other things) for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and timely preparation and dissemination to directors comprehensive Board meeting agendas and papers. During the year under review, Ms. Wong undertook over 15 hours of relevant professional training to update her skills and knowledge.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Prior to appointment, every intending director of the Company is provided with a briefing and training provided by the Company's professional legal advisers to ensure that he/she is fully aware of the duties, roles, responsibilities and obligations as a director of a Hong Kong-listed company under the Listing Rules and other applicable legal and regulatory requirements. Such briefing and training are provided at the Company's expense. The intending director also receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has an appropriate understanding of the Group's operations and businesses, including without limitation applicable legal, regulatory and related compliance requirements; corporate structure; Board and Board committee meeting procedures; shareholders communications; internal control and enterprise risk management systems and related processes; corporate governance practices; and securities dealing. During the year under review, for the purposes of corporate governance enhancement, the induction package for each intending director was updated to cover additional and recent materials.

The Company from time to time provides briefings, training sessions and materials to the directors to develop and refresh their knowledge and skills, including updates on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements to enhance their awareness and understanding of the same.

During the year under review, all directors had participated in appropriate continuous professional development activities through different means as appropriate, including but not limited to attending briefings and/or training sessions and/or reading materials relating to a variety of subject matters such as the Group's business operations, general economy and geopolitics, manufacturing or technology or handset industry and dynamics, directors' duties and responsibilities, and applicable legal and regulatory requirements.

The company secretary of the Company is responsible for keeping the records of training taken by the directors. According to the records kept by the Company, the directors attended the following continuous professional development activities during the year under review:

Name of director	Type(s) of continuous professional development activities
CHIH Yu Yang	A, B
KUO Wen-Yi	A, B
MENG Hsiao-Yi (resigned with effect from 10 March 2023)	A, B
LAU Siu Ki	A, B
Daniel Joseph MEHAN	A, B
TAO Yun Chih	A, B

A: Attending briefing(s) and/or training session(s)

B: Reading articles, journals, newspapers and/or other materials

AUDIT COMMITTEE

The Company has established and maintained an audit committee with written terms of reference by reference to the code provisions of the CG Code. The terms of reference of the audit committee are accessible on the websites of the Stock Exchange and the Company respectively.

The audit committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the audit committee)*
Daniel Joseph MEHAN
TAO Yun Chih

The principal duties of the audit committee are to review the Group's financial reporting and accounting policies and practices as well as financial controls, internal control and enterprise risk management systems and provide advice and comments to the Board. It also makes recommendations on the appointment, re-appointment and removal of external auditor, and approves the remuneration and terms of engagement of the external auditor. It also reviews and monitors the external auditor's independence and objectivity as well as the effectiveness of the audit process. Please see the section headed "Accountability and Audit" below for more details.

In particular, the Company has complied with Rule 3.21 of the Listing Rules, which requires that at least one of the members of the audit committee (which must comprise a minimum of three members with non-executive directors only and must be chaired by an independent non-executive director) is an independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The audit committee shall meet at least twice a year. Also, at least once a year the audit committee shall meet with the external auditor without any members of management of the Company present. During the year under review, the audit committee held two meetings with the external auditor and also another meeting with the external auditor without the presence of any members of management of the Company. Moreover, four audit committee meetings were held during the year under review and the meeting attendance of each member of the audit committee is set out in the section headed "Board, Committees and General Meetings" below. In particular, the committee meetings served (among other things) to review the unaudited interim financial statements and report and the audited full-year financial statements and report together with the related management representation letters, to review and approve the external auditor's engagement letters, to review and approve the internal audit plan of the Group, to review the Group's system of enterprise risk management and internal controls, to review the Group's relevant continuing connected transactions, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the audit committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the audit committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

REMUNERATION COMMITTEE

The Company has established and maintained a remuneration committee with written terms of reference by reference to the code provisions of the CG Code. The terms of reference of the remuneration committee are accessible on the websites of the Stock Exchange and the Company respectively.

The remuneration committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the remuneration committee)*
Daniel Joseph MEHAN
TAO Yun Chih

The principal duties of the remuneration committee are to make recommendations to the Board on the policy and structure for the remuneration of the directors and senior management, to consider and review the remuneration of the directors and senior management by reference to corporate goals and objectives, and to make recommendations to the Board on the remuneration packages of the directors and senior management.

The remuneration committee shall meet at least once a year (as necessary). During the year under review, two remuneration committee meetings were held and the meeting attendance of each member of the remuneration committee is set out in the section headed "Board, Committees and General Meetings" below. In addition to the committee meeting, the remuneration committee also dealt with matters once by way of circulation and signing of written resolutions during the year under review. In particular, the committee meetings and the written resolutions served (among other things) to review the proposed 2022 share grants under the Existing Share Scheme, the annual expenses allowances to executive directors, the annual remuneration packages of directors and senior management, the revised terms of reference of the remuneration committee (basically to reflect the new Listing Rules requirements and certain housekeeping amendments), the revised form of director's letter of appointment (basically to reflect the proposed/new directors' remuneration policy and certain housekeeping amendments) and to propose the directors' remuneration policy and the analysis and action plan relating to the Existing Share Option Scheme and the Existing Share Scheme in response to the Stock Exchange's Consultation Conclusions on Proposed Amendments to Listing Rules relating to Share Schemes, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the remuneration committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the remuneration committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

Details of the remuneration paid/payable to the directors of the Company during the year under review are set out in note 8 to the consolidated financial statements and "Report of the Directors" above, respectively, both forming part of the Company's 2022 annual report incorporating this report.

In relation to the aforesaid proposed 2022 share grants, the remuneration committee considered the following facts before recommending the proposed share grants to the Board:

(a) the shorter lock-up period (less than one month) applicable to the proposed share grants was in line with the Company's remuneration policies in force for time being as advised by the Company's human resources department which have been in force since 2013 when the Existing Share Scheme was adopted (which is long before the Existing Chapter 17 has become effective on 1 January 2023). In this respect, the remuneration committee was of the view that such shorter lock-up period was appropriate in the circumstances as a timely recognition of the achievements and contributions made by the proposed grantees, having also taken into consideration, among others, (1) the base and other form of remuneration available to the proposed grantees; and (2) factors affecting the Group's business performance which might be beyond their control or otherwise irrelevant to their individual contributions; and

(b) the remuneration committee was of the view that following past practice since 2013 when the Existing Share Scheme was adopted, the proposed share grants would be made unconditionally without any performance targets nor clawback mechanism; that said, the proposed share grants were aligned with the purposes of the Existing Share Scheme by recognising the achievements and contributions made by the proposed grantees and by giving incentives to reward, motivate and retain them for the purposes of the Group's future development, expansion and long-term success.

Directors' Remuneration Policy

On 23 December 2022, the Company adopted the Directors' Remuneration Policy, forming part of the Manual (this "Policy") which sets out consistently-applied remuneration structures to remunerate the Company's directors (the "Directors"), comprising executive directors (the "Executive Directors") and non-executive directors including independent non-executive directors (the "Non-Executive Directors"), equitably and competitively at an appropriate (but not excessive) level, thereby enabling the Company to attract and retain high-caliber executive talents of diversified perspectives for their commitment to the Company as a sustainable Board and also to motivate the Directors to implement and materialise the Company's business strategies, financial goals and corporate developments which could ultimately create long-term values for the Company's shareholders and other key stakeholders, in a manner consistent with the Company's core business and leadership values.

1. Underlying Procedures and Measures

The procedures for devising and implementing this Policy are summarised as follows:

(1) this Policy is first prepared and subsequently reviewed and revised (please also see Section 6 below) by the Company's Remuneration Committee (the "Remuneration Committee") on the basis of (among other things) the following:

(a) applicable requirements under the Listing Rules;

(b) the prevailing market practices and remuneration levels and trends in the market at the relevant time, including without limitation the results of the benchmarking referred to in Section 3 below as conducted with comparable remuneration structures and levels adopted by the Benchmarking Group (as defined in Section 3 below); and

(c) in relation to the remuneration proposals for the Executive Directors, prior consultation with the Company's Chairman or Acting Chairman (as the case may be) and/or Chief Executive Officer; and

(2) with reference to the Remuneration Committee's recommendations, the Board considers and (if thought fit) adopts and implements this Policy and its subsequent review and revision (please also see Section 6 below).

To avoid any potential/actual conflicts of interests, the following measures have been adopted in respect of the implementation of this Policy and its subsequent review and revision:

(a) the Remuneration Committee must at all times be chaired by an independent Non-Executive Director, and comprise a majority of independent Non-Executive Directors;

(b) the Executive Directors (at the Board level) should review and adopt this Policy (and any subsequent amendments thereto) only to the extent of the general provisions applicable to all the Directors as well as those portions relating to the Non-Executive Directors; and

(c) the Non-Executive Directors (at the Board level) should review and adopt this Policy (and any subsequent amendments thereto) only to the extent of the general provisions applicable to all the Directors as well as those portions relating to the Executive Directors.

The procedures for determining and fixing the Directors' annual remuneration are summarised as follows:

(i) the Company's shareholders authorise the Board to fix the remuneration of each Director proposed to be re-elected at each annual general meeting of the Company;

(ii) the remuneration committee considers the respective annual remuneration of the Directors (as regards the annual remuneration of each independent Non-Executive Director, his/her annual remuneration shall be determined by the other members of the remuneration committee) and then recommends the same to the Board;

(iii) with reference to the remuneration committee's recommendations, the Board considers and (if thought fit) approves the respective annual remuneration of the Directors (in this respect, no Director should be involved in considering and deciding his/her own annual remuneration); and

(iv) the annual remuneration of each Director is disclosed in the Company's corresponding annual report (incorporating its consolidated financial statements).

2. Remuneration Principles

A summary of the Company's general remuneration principles (which also apply to the Directors' remuneration) is set out as follows:

Transparency	Remuneration arrangements should be transparent and promote effective engagements with the Company's shareholders and other key stakeholders.
Alignment with corporate culture	Remuneration should drive behaviours consistent with the Company's corporate vision, values and mission as well as desired corporate culture.
Merit-based reward	Remuneration must reinforce the Company's merit-based culture and philosophy at all levels within the organisation.
Competitiveness	Remuneration is competitive against the comparable market and is set in a manner to attract, motivate and retain expert leaders and highly qualified executives.
Long-term value creation	Targets triggering any variable remuneration are in the long-term interests of the Company and its shareholders and other key stakeholders.
Compliance	The Company's remuneration policies and proposals are devised and implemented in compliance with applicable requirements under the Listing Rules and (as appropriate) other applicable laws and regulations.
Risk prudence	Remuneration arrangements should avoid or at least mitigate any reputational risks that may arise from excessive rewards, and also any behavioural risks that may arise from target-based incentive proposals.

3. Remuneration Benchmarking

While continuously monitoring the prevailing market practices and remuneration levels and trends in the market at the relevant time, the Company benchmarks the Directors' remuneration against the Benchmarking Group (as defined in this Section 3) at least on an annual basis.

The Company's Human Resources Department assists the Remuneration Committee in identifying and updating a benchmarking group that best serves directors' (or comparable role/title's) remuneration comparisons with the Company in terms of business, operational scale, revenue, market capitalisation as well as corporate culture and values (the "Benchmarking Group"), including without limitation companies with global manufacturing operations in the handset industry; and the Hon Hai Technology Group to which the Company belongs (comprising Hon Hai) and its subsidiaries and associates other than the Company and its subsidiaries).

4. Overview on Remuneration Components

(A) Remuneration of Executive Directors

The remuneration structure for the Executive Directors comprises a fixed component as well as short-term and long-term variable components, which could promote the alignment between the interests of the Company and those of the Executive Directors in both the short and long terms, taking into account (among other things) each Executive Director's individual performance, achievements and contributions vis-à-vis the Company's operation results, financial performance and business objectives.

The Executive Directors' remuneration consists of the following primary components:

Component	Objective(s)	Description
Basic salary and (if any) allowance(s) (as fixed component)	To provide competitive fixed remuneration that attracts, motivates and retains the high-caliber Executive Directors, and also corresponds to their duties, responsibilities and experience in relation to his/her performance of the Company's day-to-day activities.	• As to each Executive Director, basic salary is normally determined with reference to (among other things) the following: (a) his/her duties, responsibilities and experience in relation to his/her performance of the Company's day-to-day activities and employment conditions of the Company; and (b) the prevailing market practices and remuneration levels and trends in the market at the relevant time, including without limitation the results of the benchmarking referred to in Section 3 above as conducted with comparable basic salaries (if applicable, together with allowances) paid to executive directors belonging to the Benchmarking Group.

Component	Objective(s)	Description
		• Basic salary is usually reviewed on an annual basis. • Basic salary is not linked to any performance target. • There is no prescribed maximum basic salary nor automatic/guaranteed basic salary increment periodically/annually. • Where appropriate, an annual expenses allowance may be payable to the relevant Executive Director in such amount determined by the Board from time to time in its absolute discretion, mainly depending on the individual needs and other relevant circumstances of such Executive Director.
Performance-based bonus (short-term incentive as variable component)	• To focus on and drive the business priorities for the current year. • To motivate the Executive Directors to achieve performance targets that are critical to the Company's business strategies and financial goals over the relevant period.	• As to the relevant period, the short-term bonus is normally based on (among other things) the following: (a) the Company's consolidated financial results and overall performance; (b) the relevant Executive Director's individual performance in terms of his/her pre-determined key performance indicators (KPI); (c) the prevailing market practices and remuneration levels and trends in the market at the relevant time, taking into account (among other things) the results of the benchmarking referred to in Section 3 above as conducted with comparable short-term performance-based bonuses paid to executive directors belonging to the Benchmarking Group; (d) if applicable, the achievement of specific short-term targets assigned to the relevant Executive Director; (e) if applicable, the attainment of certain short-term financial and/or other objectives set for the relevant Executive Director; and (f) if applicable, the achievements and contributions of the business unit(s) and/or functional department(s) for which the relevant Executive Director is responsible. • The short-term bonus is usually paid in cash.

Component	Objective(s)	Description
Performance-based bonus, including share-based payments (long-term incentive as variable component)	• To drive and reward value creation over a longer period. • To align with objectives of the Company's shareholders through acquisition of interests in the Company's shares.	• As to the relevant period, the long-term bonus is normally based on (among other things) the following: (a) the pre-determined performance targets set for the relevant Executive Director vis-à-vis the Company's long-term business strategies and financial goals, which should be measured over a period of three years; (b) the profit/loss and balance sheet indicators and rolling operating profit/loss of the Company; and (c) the prevailing market practices and remuneration levels and trends in the market at the relevant time, taking into account (among other things) the results of the benchmarking referred to in Section 3 above as conducted with comparable long-term performance-based bonuses paid to executive directors belonging to the Benchmarking Group. • The Company's Human Resources Department assists the Remuneration Committee in determining and monitoring the performance targets and the measurement thereof for the relevant period in respect of the relevant Executive Director. • The long-term bonus is normally paid in the form of share-based payments pursuant to the Company's share scheme and/or share option scheme as adopted from time to time (collectively, the "Long-Term Incentive Schemes"), pursuant to which (among other things) the Board may in its absolute discretion offer grants of awards and/or options over the Company's shares to the relevant Executive Director subject to any applicable vesting period(s) and/or lock-up period(s) upon and subject to the terms and conditions set out therein.

With reference to the Remuneration Committee's recommendations, the Board may adapt the above remuneration structure (with appropriate adjustments/amendments) as the remuneration structure for the Company's senior management.

(B) Remuneration of Non-Executive Directors

The remuneration of each Non-Executive Director is fixed with no variable component, and the fixed remuneration in the form of an annual fee is normally based on (among other things) the following:

(1) his/her duties and responsibilities as well as time commitment;

(2) his/her achievements and contributions to the Company; and

(3) the prevailing market practices and remuneration levels and trends in the market at the relevant time, taking into account (among other things) the results of the benchmarking referred to in Section 3 above as conducted with comparable fees and/or allowances paid to non-executive directors and/or independent non-executive directors belonging to the Benchmarking Group.

In addition, a fixed annual allowance is given for each chairmanship on the relevant committee of the Board, and is normally based on (among other things) the foregoing.

According to Paragraph E.1.9 (as a recommended best practice) of Part 2 of the CG Code, issuers generally should not grant equity-based remuneration (e.g. share options or grants) with performance-related elements to independent non-executive directors as this may lead to bias in their decision-making and compromise their objectivity and independence. In line with this, the independent Non-Executive Directors are not eligible to participate in any one or more of the Long-Term Incentive Schemes and other incentive programs/plans adopted by the Company from time to time, nor to receive any fringe benefits from the Company, so that their objectivity and independence may not be affected.

5. Derogation

The Board may, upon the Remuneration Committee's recommendations, deviate from any aspect of this Policy on a case-by-case basis only if exceptional circumstances could justify such deviation, provided that any proposed deviation from this Policy shall be aligned with the objective of this Policy as aforesaid, applying a consistent approach.

Exceptional circumstances are circumstances in which a deviation from this Policy is, in the Board's opinion, necessary to serve the long-term prospects and sustainability of the Company, including without limitation any proposed payment of above-market levels of remuneration to retain a Director or secure an individual who is considered by the Board to have outstanding expertise and experience that are critical to the attainment of the Company's business objectives and financial goals; and material changes in the Company's structure, organisation, ownership and operations (for example, merger, takeover, acquisition, etc.) triggering exceptional short-term and long-term incentive awards to any one or more of the Directors.

6. Annual Review

On the basis of the views and recommendations from the remuneration committee, the Board will annually review this Policy to ensure its implementation and effectiveness. At the meeting held on 23 December 2022, on the basis of the recommendations from the remuneration committee, the Board adopted this Policy.

NOMINATION COMMITTEE

The Company has established and maintained a nomination committee with written terms of reference together with the nomination policy for directorship, formerly known as the nomination procedures and process and criteria to select and recommend candidates for directorship (the "Nomination Policy") as well as the board diversity policy (the "Board Diversity Policy"), both policies forming part of the Manual, by reference to the code provisions of the CG Code. The terms of reference of the nomination committee are accessible on the websites of the Stock Exchange and the Company respectively.

The nomination committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the nomination committee)*
Daniel Joseph MEHAN
TAO Yun Chih

The principal duties of the nomination committee include:

- reviewing the structure, size and composition of the Board annually and make recommendations on any proposed changes;

- making recommendations to the Board on the appointment or re-appointment of the directors and succession planning for the directors, in particular the chairman of the Board and the chief executive officer of the Company;

- assessing the independence of the independent non-executive directors;

- identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships in accordance with the Nomination Policy and the Board Diversity Policy; and

- together with the corporate governance committee, reviewing each of the Nomination Policy and the Board Diversity Policy (as appropriate) to ensure its effectiveness, relevance to the Company's needs and alignment with the then current regulatory requirements and good corporate governance practice, and discussing any proposed changes to the then existing Policy for recommendation to the Board for consideration.

Nomination Policy

On 22 March 2012, the Company adopted the Nomination Policy, as amended and supplemented from time to time. The Nomination Policy aims at setting out (among other things) the process for the nomination of directorship candidates by a director or shareholder of the Company, the information collection and candidate selection process of the nomination committee, criteria which the nomination committee would consider and details on the nomination procedures for appointment and re-appointment of director(s) of the Company, in order to facilitate the constitution of the Board with a balance of skills, knowledge, ability, experience and diversity of perspectives that is appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The Nomination Policy supplements the terms of reference of the nomination committee.

The Nomination Policy has been amended and adopted by the Board on 15 March 2022 and the new version has taken effect from 20 May 2022 when the Company's shareholders approved and adopted the Articles.

Further to the requirements under the Articles applicable to the nomination of directorship candidates by a director or shareholder of the Company, the nomination committee shall take into account a variety of considerations in assessing and evaluating whether a candidate is suitably qualified to be appointed as a director of the Company before making recommendations to the Board. The main considerations are summarised as follows:

- the candidate's qualifications, skills, knowledge, ability and experience, with reference to the corresponding professional knowledge and industry experience that may be relevant to the Company and also the potential contributions that such candidate could bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

- the candidate's potential time commitment and attention to perform director's duties under common law, legislation and applicable rules and regulations (including without limitation the Listing Rules);

- the candidate's personal ethics, integrity and reputation (including without limitation to conduct appropriate background checks and other verification processes against such candidate), which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business;

- the then current structure, size and composition of the Board and the Company's corporate strategy with reference to the Board Diversity Policy, with due regard for the benefits of the appropriate diversity of perspectives within the Board;

- Board succession planning considerations and the long-term needs of the Company; and

- any other factors and matters as the nomination committee may consider appropriate.

In case of a candidate for an independent non-executive director of the Company, the nomination committee will also assess:

- the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and

- the requirements relating to independent non-executive directors set out in Paragraph B.3.4 of Part 2 of the CG Code, and for such purposes, the nomination committee may refer to the practical advice and suggestions provided in the Guidance for Boards and Directors and the Corporate Governance Guide for Boards and Directors (each as amended and supplemented from time to time) published by the Stock Exchange in respect of independent non-executive directors.

As to the re-appointment of a director of the Company, the nomination committee will *mutatis mutandis* apply the above process and criteria, and if applicable, assess whether such director has remained independent in the context of the Listing Rules and should be re-elected at the next general meeting of the Company. Please see below for details.

The nomination committee will follow the nomination procedures set out in the Nomination Policy to select and recommend candidates for the Company's directorship to ensure that the candidates possess the expertise and experiences to perform his/her duties and fulfil the relevant requirements as a director of the Company. Such nomination procedures are summarised as follows:

- Upon receipt of a nomination from the nominating director or the company secretary of the Company, the chairman of the nomination committee will convene a meeting of the nomination committee to consider the same in accordance with the terms of reference of the nomination committee. For filling a casual vacancy on the Board, the nomination committee will conduct the relevant selection process and apply the relevant selection criteria, and make recommendations to the Board for consideration. The Board will then make a decision as to whether the nominated candidate shall be eligible to be appointed as a director of the Company.

- A similar process is applied in the re-appointment of director(s) of the Company, except that if the director proposed to be re-appointed or re-elected due to retirement by rotation under the Articles is an independent non-executive director of the Company who has served the Board for more than nine years, the nomination committee shall assess whether the director has remained independent in the context of the Listing Rules and should be re-elected at the next general meeting of the Company and make recommendations to the Board for consideration. If the Board determines that the relevant director has remained independent in the context of the Listing Rules, the Board shall recommend the proposed re-appointment/re-election of the director to the Company's shareholders for consideration at the next general meeting of the Company. According to Paragraph B.2.3 of Part 2 of the CG Code, the Company's circular relating to the proposed re-appointment of such director shall state why each of the nomination committee and the Board believes that the director is still independent and should be re-elected, including the factors considered, the process and the discussion of the nomination committee/the Board (as the case may be) in arriving at such determination.

- For proposing a candidate to stand for election as the Company's director at a general meeting of the Company, the nomination committee will make nominations to the Board for consideration, and the Board will then make recommendations to the Company's shareholders for consideration. In accordance with Rule 13.70 of the Listing Rules, the Company shall publish an announcement or issue a supplementary circular setting out the information required by the Listing Rules (including without limitation the relevant particulars of the candidate) upon receipt of the written notice from the Company's shareholder(s) where such notice is received by the Company after publication of the notice of meeting; the Company must give its shareholder(s) at least seven days to consider the relevant information disclosed in such an announcement or supplementary circular prior to the date of the meeting of the election. In this respect, the Company will assess whether to adjourn the general meeting to give the Company's shareholders a longer period of at least ten business days to consider the relevant information disclosed in the announcement or supplementary circular. For details about the procedures for the Company's shareholders to propose candidates for election as a director of the Company, please see such procedures (as amended and supplemented from time to time) accessible on the website of the Company.

Board Diversity Policy and Diversified Board Composition

On 12 August 2013, the Company adopted the Board Diversity Policy, as amended and supplemented from time to time. On 23 December 2022, the Board reviewed the then existing Board Diversity Policy and adopted a revised version to reflect the new annual review and disclosure requirements under the Listing Rules and certain housekeeping amendments. The Company recognises the benefits from its Board constituted from time to time having a balance of skills, knowledge, ability, experience and diversity of perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The Company regards the achievement and maintenance of the appropriate diversity of perspectives within the Board as a critical factor in supporting its competitive strengths and achieving its strategic goals and sustainable development in the long run. The Board Diversity Policy aims at setting out the framework that the Company has put in place to implement the above objectives. The Board Diversity Policy supplements the terms of reference of the nomination committee. On the basis of the joint views and recommendations from the nomination committee and the corporate governance committee, the Board will annually review the Board Diversity Policy to ensure its implementation and effectiveness. On 10 March 2023, the Board reviewed the Board Diversity Policy and considered that the same has been implemented and remained effective.

In accordance with the Board Diversity Policy, when reviewing the Board's structure and composition and/or Board member appointment or re-appointment, the nomination committee shall take into account a number of factors (with reference to the diversity of perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates) as measurable objectives (which factors include without limitation gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge as well as length of service). The nomination committee will continue to monitor and review the progress towards achieving the said measurable objectives by considering candidates on merits as well as against the said measurable objectives with due regard for the benefits of the appropriate diversity of perspectives within the Board and the candidates' potential contributions thereto.

As at the date of this report, the Board comprised six directors, including 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. Details of the directors are set out in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2022 annual report incorporating this report. In this respect, please see the Company's announcement dated 10 March 2023 regarding the changes in the Company's directors and also the section headed "The Board" above.

The Board was diversified in terms of age, ethnicity, length of service, professions, background, etc. Among the six directors, four of them held master's or doctoral degrees, and their cultural, educational and technical backgrounds span across Taiwan, Hong Kong and the U.S., with experiences in communication industries and engineering, product and technology, research and development, corporate governance, corporate finance, financial advisory and management, accounting and auditing, information systems, cyber security, marketing and business development, Internet, mobile application and technology developments and consultancy to start-up growth and management. The diversified composition of the Board, coupled with alignment with the Company's strategy and objectives, bring a broad vision to the Board in making decisions on the Group's material issues, which has effectively enhanced the decision-making competencies, strategic management and overall performance of the Board.

The Company has always recognised gender diversity as one important aspect of diversity, and the Board had previously comprised of female directors (Ms. GOU Hsiao Ling from December 2004 to January 2012, and Ms. LEE Kuo Yu from May 2013 to May 2016). The directorship candidate nomination and selection process (coupled with criteria) of the nomination committee is without gender bias, being based principally on merits and assessment of candidates against the said measurable objectives (comprising gender as only one of the factors) with due regard for the benefits of the appropriate diversity of perspectives within the Board and also the candidates' potential contributions thereto. It follows that the nomination committee's selection and (if thought fit) nomination of female directorship candidates would mainly depend on the then available pool of female directorship candidates possessing the requisite professional, cultural and educational background as well as professional skills, experience and knowledge that are commensurate with the needs of the Company, etc. when being assessed on merits as well as against the said measurable objectives.

Whilst the Company sees gender diversity at the Board level as essential element in attaining its strategic objectives and achieving sustainable and balanced developments for the Group, the Company recognises that even with efforts to end its single-gender Board, it has been facing the following circumstances which have made achieving gender diversity more challenging:

- the Information Technology industry under the Hang Seng Index Industry Classification System (to which the Company belongs) remains a field of comparatively, traditional male-dominated management upon the basis of the data and statistics published by the Stock Exchange on its website (its repository headed "Board Diversity & Inclusion in Focus") as at 28 February 2023. In essence, the Information Technology industry had the fifth lowest female representation at board level (15.6%) amongst all the 12 industries, when compared with the proportion of female directorship in (among others) the Healthcare industry (19.1%) and the Financials industry (17.8%); and
- upon the basis of a peer benchmarking as at 31 December 2022 with the Group's major industry peer companies whose shares are listed on stock exchanges, according to the information then publicly available, the female representation at their respective boards of directors basically ranged from 0% to 14.3% except for the U.S.-based peer company having 27.3%, and as to those peer companies whose shares are listed on the Stock Exchange, 0% to 11.1%.

Despite the limited availability of female directorship candidates possessing the requisite industry experience in the business fields in which the Company is principally engaged and/or the requisite skills, experience and knowledge that are commensurate with the needs of the Company, the Company will continue to give due regard to the different aspects of diversity (including gender diversity) when considering potential candidates for directorship in accordance with the Board Diversity Policy. In particular, to achieve the Board's target to appoint at least one female member to the Board by 25 March 2024, the nomination committee used its best effort to identify and recommend female candidates to the Board for its consideration for appointment as director(s) and recommended to the Board (in respect of which the Board approved on 10 March 2023) the proposed appointment of Ms. CHEN Shu Chuan (also known as Nadia CHEN) as the Company's independent non-executive director (subject to the approval of the Company's shareholders) at the forthcoming annual general meeting of the Company currently scheduled to be held in May 2023, about 10 months earlier than the target date of 25 March 2024 previously set by the Board in March 2022. For details about the proposed appointment, please see the Company's announcement dated 10 March 2023 regarding the changes in the Company's directors and also the section headed "The Board" above. In addition, as to a pipeline of potential successors to the Board to achieve gender diversity, the nomination committee is exploring the feasibility of adopting the measure to identify potential candidates out of a pool consisting of a male/female ratio of at least 80:20.

2022 Work Highlights

The nomination committee shall meet at least once a year (as necessary). During the year under review, one nomination committee meeting was held and the meeting attendance of each member of the nomination committee is set out in the section headed "Board, Committees and General Meetings" below. In addition to the committee meeting, the nomination committee also dealt with matters once by way of circulation and signing of written resolutions during the year under review. In particular, the committee meeting and written resolutions served (among other things) to consider the re-election of two directors, to assess the independence of the independent non-executive directors, to review the structure, size and composition of the Board, to assess the sufficiency of the directors' time commitment and contributions to the Company, to review the revised Nomination Policy, the revised procedures for shareholders to propose candidates for election as a director of the Company, the revised Board Diversity Policy, and the revised form of director's letter of appointment (basically to reflect the proposed/new directors' remuneration policy and certain housekeeping amendments) as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the nomination committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the nomination committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

During the year under review, Mr. Chih and Dr. KUO Wen-Yi ("Dr. Kuo"), as the executive directors of the Company, were re-elected by the Company's shareholders on 20 May 2022, whose re-appointment term has commenced from 20 May 2022, ending upon the conclusion of the relevant general meeting of the Company at which (among other things) their next re-election is considered in accordance with the Articles. In this respect, the work performed by the nomination committee is summarised as follows:

- When considering the proposed re-appointment of Mr. Chih as the Company's chief executive officer and executive director, the nomination committee had taken into account (among other things) Mr. Chih's professional background, qualifications, skills, knowledge, ability and experience (particularly more than 43 years of extensive experience in the communication industries); the extensive and in-depth knowledge, experience and network of Mr. Chih in both the Company and the industry as accumulated by Mr. Chih as the Company's chief executive officer and executive director for more than 13 years; his time commitment and attention and contributions to the Company; his diversity of perspectives appropriate to the requirements of the Company's business; aspects such as personal ethics, integrity and reputation of Mr. Chih which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business; as well as other factors set out in the section headed "Corporate Governance Code" above. Following the relevant meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Mr. Chih for re-appointment as an executive director of the Company.

- When considering the proposed re-appointment of Dr. Kuo as an executive director of the Company, the nomination committee had taken into account (among other things) Dr. Kuo's professional background, qualifications, skills, knowledge, ability and experience (particularly more than 28 years of extensive experience in wireless communication product research and development, international business development, start-up business and corporate management), together with those of Dr. Kuo in both the Company and the industry as accumulated by Dr. Kuo as an executive director of the Company, his time commitment and attention and contributions to the Company; his diversity of perspectives appropriate to the requirements of the Company's business; as well as aspects such as personal ethics, integrity and reputation of Dr. Kuo which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business. Following the relevant meeting and due consideration of the aforementioned factors, the nomination committee determined to make recommendation to the Board for proposing Dr. Kuo for re-appointment as an executive director of the Company.

During the year under review and in accordance with the Board Diversity Policy, in the process of assessing candidates for the re-appointment of directors of the Company in the context of the diversity of perspectives appropriate to the requirements of the Company's business, the nomination committee had taken into account (among other things) the key factors in favour of diversity against the said measurable objectives. In this respect, the work performed by the nomination committee is summarised as follows:

- In making a recommendation to the Board proposing Mr. Chih for re-appointment as an executive director of the Company, the nomination committee had taken into account (among other things):
  - Taiwan background, qualifications and experience;
  - experienced leadership, especially when the Company has been facing tremendous market challenges and current uncertainties;
  - over 43 years of extensive experience in communication industries, particularly engineering/research and development areas; and
  - accumulated extensive and in-depth knowledge, experience and network in both the Company and the industry.

- In making a recommendation to the Board proposing Dr. Kuo for re-appointment as an executive director of the Company, the nomination committee had taken into account (among other things):
  - Chinese-American background;
  - both Taiwan and U.S. qualifications and experience;
  - U.S. educational, technology and business achievements, particularly inventor of 38 U.S. wireless communications patents;
  - doctoral degree holder;
  - professional qualifications, skills, knowledge, ability and experience in wireless communication product research and development, international business development, start-up business and corporate management; and
  - accumulated extensive and in-depth knowledge and experience in both the Company and the industry.

Work Highlights for Changes in Directors

As at the date of this report: (a) Mr. LIN Chia-Yi (also known as Charles LIN) ("Mr. Lin") was appointed as an executive director of the Company with immediate effect from 10 March 2023 (subject to retirement and re-election at the forthcoming annual general meeting of the Company ("2023 AGM") under the Articles); (b) Mr. Meng Hsiao-Yi ("Mr. Meng") resigned as an executive director of the Company and the chief operating officer of the Company with effect from 10 March 2023; (c) Mr. TAO Yun Chih ("Mr. Tao") will retire as an independent non-executive director of the Company at the 2023 AGM, and he although being eligible will not offer himself for re-election at such meeting and accordingly cease to act as a member of each of the audit committee, remuneration committee and nomination committee of the Company; and (d) subject to the approval of the Company's shareholders, Ms. CHEN Shu Chuan (also known as Nadia CHEN) ("Ms. Chen") will be appointed as an independent non-executive director of the Company and a member of each of the audit committee, remuneration committee and nomination committee of the Company with effect from the conclusion of the 2023 AGM to fill up the vacancy arising from the retirement of Mr. Tao.

With reference to the Nomination Policy and the Board Diversity Policy, the nomination committee held a meeting on 9 March 2023 to consider the appointment of Mr. Lin as an executive director of the Company and his re-election as well as the appointment of Ms. Chen as an independent non-executive director of the Company at the 2023 AGM respectively. In this respect, the work performed by the nomination committee is summarised as follows:

- In anticipation of the resignation of Mr. Meng as an executive director of the Company as a matter of an orderly succession planning at the Board level, Mr. Lin was nominated to be appointed as an executive director of the Company in place of Mr. Meng with immediate effect from 10 March 2023. Mr. Lin was nominated to be appointed to fill a casual vacancy on the Board in accordance with article 95 of the Articles. When considering the nomination of Mr. Lin as an executive director of the Company, the nomination committee obtained and reviewed the relevant information and documents relating to Mr. Lin (including without limitation his curriculum vitae showing (among other things) his skills, knowledge, ability and experience in the relevant areas) in accordance with the relevant provisions of the Nomination Policy and the Board Diversity Policy. Following the procedures set out in the Nomination Policy, a meeting of the nomination committee was convened, during which the nomination committee assessed and took into account (among other things): (i) Mr. Lin's professional background, extensive and in-depth skills, knowledge, ability and experience (particularly more than 26 years of extensive experience in the communication and computer industries); (ii) his time commitment and attention and contributions to the Company; (iii) his diversity of perspectives appropriate to the requirements of the Company's business; and (iv) aspects such as personal ethics, integrity and reputation of Mr. Lin which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business. Following due consideration of the aforementioned factors, the nomination committee determined at such meeting to make recommendation to the Board for proposing Mr. Lin for appointment and re-appointment as an executive director of the Company. In essence, Mr. Lin possesses the required character, competence, integrity, experience and diversity of perspectives to be appointed and to be re-elected as an executive director, and his appointment and continued tenure will bring valuable insights, advices, expertise and better diversity of perspectives to the Board.

- In anticipation of the retirement of Mr. Tao as an independent non-executive director of the Company as a matter of an orderly succession planning at the Board level, it was proposed to appoint Ms. Chen as an independent non-executive director of the Company with effect from the conclusion of the 2023 AGM, subject to the approval of the Company's shareholders. When considering the nomination of Ms. Chen as an independent non-executive director of the Company, the nomination committee obtained and reviewed the relevant information and documents relating to Ms. Chen (including without limitation her curriculum vitae showing (among other things) her skills, knowledge, ability and experience in the relevant areas) in accordance with the relevant provisions of the Nomination Policy and the Board Diversity Policy. Following the procedures set out in the Nomination Policy, a meeting of the nomination committee was convened, during which the nomination committee assessed and took into account (among other things): (i) Ms. Chen's professional background, extensive and in-depth skills, knowledge, ability and experience (particularly more than 34 years of extensive experience in the financial industry); (ii) her diversity of perspectives appropriate to the requirements of the Company's business, particularly to achieve gender diversity as one of the said measurable objectives; and (iii) aspects such as personal ethics, integrity and reputation of Ms. Chen which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business. Following due consideration of the aforementioned factors, the nomination committee determined at such meeting to make recommendation to the Board for proposing Ms. Chen for appointment as an independent non-executive director of the Company, subject to the approval of the Company's shareholders at the 2023 AGM. In essence, Ms. Chen possesses the required character, competence, integrity, experience and diversity of perspectives to be appointed as an independent non-executive director, and her appointment will bring valuable insights, advices, expertise, better diversity of perspectives as well as independent judgments and objective views to the Board. The nomination committee also assessed the independence of Ms. Chen, and was satisfied that Ms. Chen has met the guidelines on independence set out in Rule 3.13 of the Listing Rules and would be independent for the purposes of the Listing Rules.

In accordance with the Board Diversity Policy, in the process of assessing candidates for the appointment/re-appointment of directors of the Company in the context of the diversity of perspectives appropriate to the requirements of the Company's business, the nomination committee had taken into account (among other things) the key factors in favour of diversity against the said measurable objectives. In this respect, the work performed by the nomination committee is summarised as follows:

- In making a recommendation to the Board proposing Mr. Lin for appointment/re-appointment as an executive director of the Company, the nomination committee had taken into account (among other things):
  - Taiwan background, qualifications and experience;
  - expertise in smartphone manufacturing, R&D engineering and business development as well as active participation in core technologies and new business operations in the AI (artificial intelligence) and robotics segments;
  - key roles and functions within the Group for over 18 years;
  - accumulated extensive and in-depth knowledge, experience and network in both the Company and the industry, particularly development of strategic relationships with the Group's customers;

  - over 26 years of experience in communication and computer industries;
  - the foregoing could sync up with those of Mr. Chih and Dr. Kuo respectively, thereby giving rise to greater strengths at the Board level in support of the Group's business strategies and plans during the current challenging times and conditions; and
  - age of 52 being the youngest member of the Board (when compared with half of the Board members aging from 64 to 78) who could bring younger-generation thoughts and perspectives to the Board for better refreshment.

- In making a recommendation to the Board proposing Ms. Chen for appointment as an independent non-executive director of the Company, the nomination committee had taken into account (among other things):
  - the first female director of the Company since May 2016 (i.e. a gap of almost 7 years);
  - recognition and promotion of female leader and professional with reference to her leadership and senior managerial positions;
  - Taiwan background, qualifications and experience, particularly sharing of overseas knowledge and experience acquired through her independent directorships with Taiwan-listed companies;
  - accumulated extensive and in-depth knowledge, experience and network through her leadership and senior managerial positions in the financial industry (a highly and strictly-regulated industry), which are new and peculiar to the Board, particularly beneficial to the Board in terms of integrity and ongoing compliance with applicable laws and regulations and hence enhancement of the Company's corporate culture of acting lawfully, ethically and responsibly;
  - good personal reputation and high profile with reference to her leading and key roles and functions with certain organisations and Taiwan-listed companies belonging to different industry sectors, thereby enhancing the public image of the Board; and
  - age of 55 being the second youngest member of the Board (when compared with half of the Board members aging from 64 to 78) who could bring younger-generation thoughts and perspectives to the Board for better refreshment.

CORPORATE GOVERNANCE COMMITTEE

The Company has established and maintained a corporate governance committee with written terms of reference by reference to the code provisions of the CG Code.

The corporate governance committee now consists of two executive directors. The members are:

CHIH Yu Yang *(chairman of the corporate governance committee)*
KUO Wen-Yi

The principal duties of the corporate governance committee are to develop and review the Company's policies and practices on corporate governance and to make recommendations to the Board. It also reviews and monitors the training and continuous professional development of the directors and senior management. In addition, it reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements. Moreover, it develops, reviews and monitors the code of conduct and compliance manual applicable to employees and the directors, and to review the Company's compliance with the CG Code.

The corporate governance committee shall meet at least once a year (as necessary). During the year under review, one corporate governance committee meeting was held and the meeting attendance of each member of the corporate governance committee is set out in the section headed "Board, Committees and General Meetings" below. In addition to the committee meeting, the corporate governance committee also dealt with matters twice by way of circulation and signing of written resolutions during the year under review. In particular, the committee meeting and written resolutions served (among other things) to review the second amended and restated memorandum and articles of association, the revised memorandum on shareholder rights, the revised Nomination Policy, the revised procedures for shareholders to propose candidates for election as a director of the Company, two revised versions of the shareholders communication policy, two revised versions of the Board Diversity Policy, to review and revise the corporate vision, mission and values of the Company, to review the overview on mechanisms for independent views and inputs, the revised list of matters reserved for the Board, the current delegation of authority of the Board, the total time spent in training and continuous professional development of directors and senior management of the Company, the analysis and action plan in response to the Stock Exchange's Consultation Conclusions on Listing Regime for Overseas Issuers, the analysis and action plan in response to the Stock Exchange's Consultation Conclusions on Review of Corporate Governance Code and Related Listing Rules and the analysis and action plan relating to the Existing Share Option Scheme and the Existing Share Scheme in response to the Stock Exchange's Consultation Conclusions on Proposed Amendments to Listing Rules relating to Share Schemes, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the corporate governance committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the corporate governance committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

INDEPENDENT BOARD COMMITTEE

During the year under review, pursuant to the resolutions passed at the Board meeting held on 28 September 2022, an independent board committee comprising the three independent non-executive directors of the Company (with Mr. LAU Siu Ki as its chairman) was established to consider (among other things) the non-exempt continuing connected transactions as more particularly described in "Report of the Directors" above (forming part of the Company's 2022 annual report incorporating this report) and approved the relevant matters relating thereto. For details, please see the letter from the independent board committee as incorporated into the Company's circular dated 1 December 2022. The meeting attendance of each member of the independent board committee is set out in the section headed "Board, Committees and General Meetings" below.

BOARD, COMMITTEES AND GENERAL MEETINGS

The individual attendance records of each director (represented in the following manner: number of meeting(s) attended by each director/total number of the corresponding meeting(s) held during such director's appointment term) at the meetings of the Board, audit committee, remuneration committee, nomination committee, corporate governance committee and general meeting of the Company during the year under review are set out below:

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	Independent Board Committee Meeting	Annual General Meeting (Note)	Extraordinary General Meeting (Note)
Executive Directors								
CHIH Yu Yang	6/6	N/A	N/A	N/A	1/1	N/A	1/1	1/1
KUO Wen-Yi	5/6	N/A	N/A	N/A	1/1	N/A	1/1	1/1
CHIH Yu Yung, as proxy for KUO Wen-Yi	1/6	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MENG Hsiao-Yi (resigned with effect from 10 March 2023)	6/6	N/A	N/A	N/A	N/A	N/A	1/1	1/1
Independent Non-executive Directors								
LAU Siu Ki	6/6	4/4	2/2	1/1	N/A	1/1	1/1	1/1
Daniel Joseph MEHAN	6/6	4/4	2/2	1/1	N/A	1/1	1/1	1/1
TAO Yun Chih	6/6	4/4	2/2	1/1	N/A	1/1	1/1	1/1

Note: The directors participated in the annual general meeting and the extraordinary general meeting held on 20 May 2022 ("2022 AGM") and 23 December 2022 ("2022 EGM") respectively by means of telephone conference facility, except that Mr. LAU Siu Ki attended the 2022 AGM and the 2022 EGM in person.

GENDER DIVERSITY IN WORKFORCE

The Company recognises the importance of gender diversity at the workforce level, in addition to the Board level. As at the end of the year under review, the female representation in the Group's total workforce (full-time employees only, exclusive of part-time/temporary employees) with reference to employee categories is set out below:

Employee Category	Approximate Male/Female Ratio as at 31 December 2022
Senior Management (Note)	84 (male) / 16 (female)
Middle Management	70 (male) / 30 (female)
General Staff	47 (male) / 53 (female)

Note: Including the three senior management members listed in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2022 annual report incorporating this report).

The above female representation in the Group's total workforce exemplifies a level of diversification that is in line with other leading companies in the Information Technology industry which remains a field of comparatively, traditional male-dominated management as mentioned in the section headed "Board Diversity Policy and Diversified Board Composition" above. Notwithstanding the foregoing, during the year under review, at the Group's daily-operational senior management level, the Group appointed the Company's General Counsel as an additional female member of the Group's Global Leadership Team (consisting of global members who directly report to the Company's Chief Executive Officer or Chief Operating Officer (if any)) which currently comprises a total of 21 members, two of which are female members.

The Company will continue to strive to enhance female representation in the workforce and achieve an appropriate balance of gender distribution/ratio which corresponds with the Group's business needs and future developments. In this respect, the Group has been following its employment policies that recruitment, promotion, performance evaluation, wages assessment, training opportunities and retirement must be people-oriented, lawful, fair and without discrimination based on (among other things) gender, to the effect that female applicants and employees should be provided with equal employment and career development opportunities, giving rise to a pipeline of potential female candidates as successors to the Group's middle to senior management and ultimately the Board. With an aim to achieving more female representation in the Group's daily operational middle management, the Board has set its objective to adjust the male/female ratio at the Group's daily operational middle management to increase the female ratio by at least 1% on or before 31 December 2024.

AUDITOR'S REMUNERATION

The responsibility of the auditor is to form an independent opinion, based on its audit, on those consolidated financial statements and to report its opinion solely to the Company, as a body, and for no other purpose.

During the year under review, the auditor's remuneration incurred by the Company was US$1,073,000, and US$1,591,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services. In addition, US$48,000 for non-audit services relating to tax and advisory services was incurred by the Company's auditor during the year under review.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Group and ensuring that the consolidated financial statements are in accordance with applicable statutory requirements and accounting standards.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the preparation of the Group's consolidated financial statements and the Company's financial statements for each financial period, which give a true and fair view of the financial position and operating results of the Group or the Company (as the case may be) for such financial period. In preparing the financial statements for the year under review, the directors have selected and adopted suitable accounting policies and have applied them in a consistent manner, have made reasonable judgements and estimates, and have prepared the financial statements on a going-concern basis.

The Board has overall responsibility for the Group's system of internal controls and enterprise risk management ("ERM") and reviewing its effectiveness and (as to the ESG aspect) the Group's ESG-related strategy and reporting, and in particular, evaluating and determining the nature and extent of the risks (including ESG-related risks) it is willing to take in achieving the Group's business and strategic objectives (including, as to the ESG aspect, implementing the Group's ESG-related strategy and reporting), ensuring that an adequate and effective system of internal controls and ERM is in place within the Group.

In particular, the Board oversees the Group's management in the context of the Group's ERM and internal controls (comprising the Company's chairman/acting chairman, chief executive officer, chief financial officer and chief operating officer (if any), and the Group's operation heads of its major factories in the PRC, India, Vietnam and the U.S., who collectively as a body is designated for the purpose of assisting the Board with the Group's overall policies on ERM and internal controls (the "Management")) in (among other things) the design, implementation and monitoring of the internal control and ERM system on an on-going basis, so that (among other things) the business and strategic objectives of the Group (including, as to the ESG aspect, implementing the Group's ESG-related strategy and reporting) can be achieved and risks (including ESG-related risks) associated can be identified, evaluated, managed and mitigated (but not eliminated) at an acceptable level, and reasonable (but not absolute) assurance can be provided against material misstatement or loss and also assurance can be provided on the effectiveness and adequacy of operations, reliability of financial reporting and operational information, safeguarding of the Group's assets and compliance with the Group's policies, plans and procedures as well as applicable laws and regulations.

During the year under review, the ESG committee, also known as the sustainability committee, was established and has been operated under the authority of the Company's chief executive officer. For details, please refer to the Company's separate 2022 ESG report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report.

The Board (through its audit committee comprising, for the time being, all the independent non-executive directors) oversees and evaluates the Group's internal control and ERM system on an on-going basis. In particular, the audit committee, in discharging the aforesaid responsibility as delegated by the Board, semi-annually reviews the design and operational adequacy and continuing effectiveness of the Group's internal control and ERM system. In respect of the year under review, semi-annual review of the Group's internal control and ERM system was conducted in August 2022 and March 2023 by the audit committee, and the audit committee confirmed in both occasions that the Group's internal control and ERM system continued to be effective and adequate throughout the year under review. For details, please refer to the penultimate paragraph below of this "Accountability and Audit" section. Moreover, the audit committee, in discharging the Board's responsibility of overseeing and evaluating the effectiveness and adequacy of the Group's system of internal controls and ERM as delegated by the Board, reviews the Group's internal audit function. Pursuant to a risk-based approach, the Group's internal audit function independently reviews the risks (including ESG-related risks) associated with and internal controls of the Group over various operations and activities, and evaluates their overall adequacy, effectiveness and compliance, including compliance with the Group's policies, plans and procedures. The Group's internal audit function (as designated by the Board) has unrestricted access to all information, books, people and physical properties, thereby allowing it to review all aspects of the internal controls, ERM and governance processes within the Group. This includes audit of financial and operational controls of all legal entities, business and functional units as well as all other material controls (including financial, operational and compliance controls). The audit committee reviews and approves the internal audit plan which is prepared by the Group's internal audit function in the first quarter of every year based on a risk assessment of each operating and functional unit as well as its materiality in the context of the Group. Audit findings, enhancements and recommendations are communicated to the management of the responsible unit after each internal audit. The management of the responsible unit is responsible for evaluating such audit findings, enhancements and recommendations and then implementing the appropriate ones and rectifying the deficiencies with corrective actions, and the progress on such implementation and rectification is followed up by the Group's internal audit function on a regular basis and monitored by the Management in order that corrective actions can be taken by the management of the responsible unit in a timely manner. Escalation to the senior management or even the executive directors for material deficiencies will be made by the Group's internal audit function, when necessary. A summary of major activities and findings is reported semi-annually by the Group's internal audit function to the executive directors and the audit committee. Being a learning organisation, lessons learned and best practices are disseminated and promoted within the Group.

During the year under review, the Company engaged PricewaterhouseCoopers ("PwC") to provide an independent external quality assessment ("EQA") of the Group's internal audit function, and PwC's final EQA report has concluded that there were no findings showing that the operation of the Group's internal audit function was below applicable industry standards, and the Group's policies and processes regarding the Group's internal audit function generally conformed with the applicable international standards. A summary of PwC's final EQA report, together with an action plan of the Group's internal audit function to implement and execute PwC's recommendations to enhance the then current operation of the Group's internal audit function, were incorporated into the report of the Group's internal audit function to the Company's audit committee and the Board which noted and confirmed the same, respectively. The Group's internal audit function implemented and executed all PwC's recommendations in accordance with the action plan during the year under review.

During its semi-annual review, the audit committee also considers, in particular: (a) the adequacy of resources, qualifications and experiences of the Group's staff performing accounting, internal audit and financial reporting functions as well as those relating to the Group's ESG performance and reporting and their training programs and budget; (b) the changes, since the last review, in the nature and extent of significant risks (including ESG-related risks), and the Group's ability to respond to changes in its business and the external environment; (c) the scope and quality of the Management's on-going monitoring of risks (including ESG-related risks) and of the internal control and ERM system, and the work of the Group's internal audit function and (if any) other assurance providers; (d) the extent and frequency of communication of monitoring results to the audit committee which enables it to assess control of the Group and the effectiveness of risk management; (e) significant control failings or weaknesses that have been identified during the period under review and also the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and (f) the effectiveness of the Group's processes for financial reporting and compliance with the Listing Rules.

The code of conduct and the code of ethics administering appropriate and prohibited individual behaviours within the Group are implemented and apply to employees by way of policies, rules and principles. For details, please refer to the "Overview on Mechanisms for Independent Views and Inputs" section of this report as well as the Company's separate 2022 ESG report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report.

In particular, the Group has established and maintained its whistle-blowing policies and the related procedures which apply to the Group's key stakeholders (including all current and former directors, officers and other employees (both permanent and temporary); customers; suppliers; joint venture partners; and other business partners). Issues/concerns and complaints concerning fraudulent acts, unethical acts or improper business conduct can be raised through established hotlines and other channels. Whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice. All issues/concerns and complaints will be handled confidentially, timely, fairly and professionally by the Group's chief internal auditor for further investigation and appropriate follow-up actions, including escalation to the Company's audit committee (for the time being, comprising all the independent non-executive directors). The whistle-blowing policies and the related procedures will be reviewed regularly according to changes to the business and/or regulatory environments and requirements. During the year under review, the Group's internal audit function reviewed the whistle-blowing policies and the related procedures, and confirmed that they complied with the Stock Exchange's relevant guidance in all material respects.

Further, the Group's anti-corruption code of conduct describes the types of conduct which are strictly prohibited and clearly informs all its directors, officers and employees that they are required to abide by this code. To keep its directors, officers and employee abreast of the Group's latest anti-corruption policies and measures, the Group distributes relevant refreshers and updates as well as the related information and materials to its directors, officers and employees on a regular basis, and anti-corruption training programmes are provided to directors, officers and employees which cover topics including applicable anti-corruption laws and regulations, types of misconduct, definition of bribery, individual liabilities and consequences of bribery as well as an overview of the Group's whistle-blowing policies. In addition, the Group requires (as a prerequisite to the establishment of business relationship) its suppliers and customers to strictly enforce high standards of anti-corruption. Also, please refer to the "Overview on Mechanisms for Independent Views and Inputs" section of this report for more details about the Group's policies and systems that promote and support anti-corruption laws and regulations. During the year under review, the Group's internal audit function reviewed the Group's anti-corruption code of conduct, and confirmed that it complied with the Stock Exchange's relevant guidance in all material respects.

Risk management is one of the fundamental parts of the Group's strategic management, and is an on-going process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives (including, as to the ESG aspect, implementation of the Group's ESG-related strategy and reporting), and safeguarding the interests of shareholders and other key stakeholders such as customers, suppliers, creditors and employees. Existing and emerging risks are identified, evaluated and managed via the ERM system. The system is operated and monitored by the Group's ERM team (the "ERM Team") which consists of the Company's heads/leaders of human resources, supply chain services, manufacturing and corporate engineering, product safety, security and liability, quality and reliability, finance, legal, information technology, investment management, strategic planning, sales and collection management, environment and health and safety departments/divisions, collectively as a body representing key functions of the Group for monitoring and execution of the ERM processes (e.g. to establish ERM strategies and objectives, and to maintain risk assessment standards and categories) in accordance with the enterprise risk assessment and management planning operation procedures, which set out (among other things) the enterprise risk assessment and management principles and procedures, the quantifiable assessment standards and evaluations, the respective roles and responsibilities of the ERM Team and the supporting divisions and handling officers at the headquarters and business unit levels as well as the ERM system operation details. Risk assessment results generated and contributed by the underlying business unit controllers/risk owners will be collected, reviewed, assessed and consolidated twice a year by the Company's risk management division led by the Group's chief internal auditor. Risk assessment reports (as prepared on the basis of such risk assessment results and covering, among other things, review of progress on ESG-related goals and targets) will be submitted on a regular basis to the ERM Team for review to ensure the adequacy of action plans and appropriate business processes or control systems to manage these risks (in particular, the areas which were assessed as high risk, including ESG-related risks, if any). The Company's risk management division will consolidate all the risk assessment results in a Group-level risk assessment report and then submit the same to the Company's chief financial officer on an annual basis. Such Group-level risk assessment report provides for (among other things) the ERM framework and model, the annual ERM analyses (with the relevant risk scores, highlighting the major risk areas and corresponding enhancements, if any), and the planned ERM work for next year. In this respect, the Company's chief financial officer will represent the Management and report the operational adequacy and continuing effectiveness of the internal control and ERM system (including the relevant ERM matters) to the audit committee on an annual basis.

The principal risks that are covered by the ERM system are strategic planning, technical, budgetary control, performance measurement, and control over capital expenditure, investment, finance, quality, product safety, security and liability, legal, regional (including politics, culture, etc.), information technology, supply chain management (including sourcing), environmental protection, natural disasters, human resources management, customer credit risk and relationship, industrial safety as well as sales and collection management.

The Group also adopts internal control procedures to ensure that the continuing connected transactions of the Group have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms (or better) and according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole. The accounting department of the Company is primarily responsible for reviewing and monitoring the continuing connected transactions, ensuring that the annual caps of the relevant continuing connected transactions are not exceeded and the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The accounting department of the Company will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and semi-annually report to the chief financial officer of the Company, who in his own capacity and on behalf of the Management will report to the audit committee (for the time being, comprising all the independent non-executive directors) and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the Listing Rules have been entered into: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are properly implemented and operated and are adequate and effective to ensure that such transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements. The audit committee will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the Listing Rules) semi-annually to check and confirm whether such continuing connected transactions are conducted: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, and whether the internal control procedures put in place by the Company are properly implemented and operated and are adequate and effective to ensure that such continuing connected transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements. For details, please refer to the "Internal Control Measures" section of the Company's circular dated 1 December 2022. In particular, in order to assist the independent non-executive directors (for the time being, being all the members of the audit committee) in performing their corresponding duties and functions under the Listing Rules and also having an oversight over the on-going monitoring in respect of the Group's continuing connected transactions, the Company's chief financial officer and the Group's chief internal auditor jointly issue, on a semi-annual basis, a report to the independent non-executive directors (copied to the corporate governance committee) on the internal controls applicable to such continuing connected transactions, setting out (among other things) the review and findings relating to the assessment of the appropriateness and effectiveness of the relevant internal control procedures, and the recommended enhancements on the relevant internal control procedures (if any). In this respect, sufficient information regarding such continuing connected transactions and related pricing policies and internal control procedures has been provided to the independent non-executive directors, who (during the review process for the period under review) have confirmed that they have not encountered any problems nor difficulties and have been given ample opportunities to pose questions, request additional information and/or make suggestions in respect of any such continuing connected transactions and related pricing policies and internal control procedures.

The Company's chief financial officer in his own capacity and on behalf of the Management, after reviewing and discussing with the Group's internal audit function the Group's internal control and ERM system as well as the related reports and disclosures made by the Group's internal audit function and other relevant stakeholders for the year under review, has provided a confirmation to the audit committee on the adequacy and effectiveness of the system.

Based on the results of evaluations and representations for the year under review made by the Company's chief financial officer in his own capacity and on behalf of the Management and the Group's internal audit function respectively, the audit committee is satisfied with the effectiveness of the Group's internal audit function and that there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives, and an effective and adequate system of internal controls and ERM has been in place throughout the year under review, for safeguarding the interests of shareholders and other key stakeholders such as customers, suppliers, creditors and employees.

The procedures for the handling and dissemination of inside information and handling enquiries from authorities (forming part of the Manual) set out the detailed internal controls, reporting and authorisation procedures in connection with:

(a) the handling and dissemination of inside information in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO, where recipients of potential inside information (subject to applicable confidentiality obligations and dealing restrictions) will notify the leader of a core team designated by the Board for assessment and (as appropriate) reporting to the chairman/acting chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess any disclosure need in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO in respect of the potential inside information.

(b) the handling of enquiries from competent authorities (including the Stock Exchange and the Hong Kong Securities and Futures Commission), who may make enquiries with the Company on (among other things) unusual movements in the price or trading volume of the Company's shares under Rule 13.10 of the Listing Rules or media news or compliance with the Listing Rules, the SFO or other applicable laws and regulations, and such enquiries will be handled through the designated core team and (as appropriate) the chairman/acting chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess proper disclosure.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SHAREHOLDER AND OTHER KEY STAKEHOLDER COMMUNICATIONS

Communications with Shareholders

The Company has formulated and maintained the shareholders communication policy (forming part of the Manual) setting out the framework that the Company has put in place to maintain and promote effective communication and on-going dialogue with its shareholders so as to enable them to engage actively with the Company through different means of communication and exercise their rights in the capacity as shareholders in an informed manner. To this end, the Company strives to ensure that all its shareholders have ready and timely access to all publicly available information relating to the Company.

On the basis of the views and recommendations from the corporate governance committee, the Board will annually review the shareholders communication policy to ensure its implementation and effectiveness, and that the shareholders communication policy will remain relevant to the Company's needs and reflected both the then current regulatory requirements and good corporate governance practice. During the year under review, the shareholders communication policy was amended twice upon the Board's regular and ad-hoc review on 15 March 2022 (basically to update the Company's website referred to therein) and on 23 December 2022 (basically to reflect the new Listing Rules requirements), respectively. The shareholders communication policy mentioned below refers to its latest version as so amended.

The shareholders communication policy provides for (among other things) the Company's updates to its shareholders on the Group's latest business developments, financial performance, etc. through its press releases, annual and interim reports, announcements, circulars and other publications where the Company's website (https://www.fihmobile.com) serves as an effective communication platform between the Company and (among others) its shareholders.

The shareholders communication policy also provides for (among other things) the procedures by which enquiries may be put forward to the Company as follows:

- The Company's shareholders may at any time send enquiries (including enquiries to the Board) and requests for publicly available information and provide comments and suggestions to the Company. Such enquiries, requests, comments and suggestions can be sent through "Contact Us" at the Company's website (https://www.fihmobile.com) or to the company secretary at the following address:

  The Company Secretary of FIH Mobile Limited
  c/o Shenzhen Futaihong Precision Industrial Co., Ltd.
  No. 2, 2nd Donghuan Road
  Longhua Street, Baoan
  Shenzhen City
  Guangdong Province
  518109
  People's Republic of China

- For enquiries about their shareholdings in the Company, the shareholders can direct the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at currently 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by email to hkinfo@computershare.com.hk, who has been appointed by the Company to handle the shareholders' share registration and related matters.

- For the verification of his/her capacity as a shareholder, the shareholder making the enquiry, request, comment or suggestion shall forthwith upon the Company's request provide: (a) his/her name, address and other contact details; (b) the number of the Company's shares held by him/her; (c) his/her written consent to the use, transfer and/or processing of his/her personal data and other information provided to the Company for the purpose of verifying his/her capacity as a shareholder; and (d) such additional information as the Company may reasonably require for the purposes of such verification. The verification process will be conducted by the Company, in consultation with the Company's Hong Kong branch share registrar and other third parties if necessary, to the satisfaction of the Company. The Company will proceed to handle the relevant enquiry, request, comment or suggestion following a successful verification to its satisfaction.

- Following a successful verification of the shareholder's capacity, the company secretary or the handling officer of the Company's investor relations department (as the case may be) will review the relevant enquiry, request, comment or suggestion and (as appropriate) forward the same: (a) to the Board (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within the Board's purview; (b) to the members of the relevant Board committee (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within such Board committee's area of responsibility; and (c) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

During the year under review, the Company received enquiries brought by its shareholders through the different communication channels (including without limitation the 2022 AGM and the 2022 EGM as mentioned below) contemplated by the shareholders communication policy, and responded to all such enquiries in a timely manner.

The shareholders communication policy further provides (among other things) that the annual general meetings and other general meetings of the Company are the primary forum for communication with the shareholders and for the shareholders' exchange of views and participation in discussions with the Board.

During the year under review, the 2022 AGM was held on 20 May 2022, and the 2022 EGM was held on 23 December 2022. All the directors of the Company attended each of the 2022 AGM and the 2022 EGM in person or by means of telephone conference facility. The meeting attendance of each director is set out in the section headed "Board, Committees and General Meetings" above.

At the 2022 AGM, the Company obtained its shareholders' approval of the agenda items set forth in the 2022 AGM notice attached to the Company's circular dated 14 April 2022, and immediately after the close of the 2022 AGM, the Company responded to its shareholder's enquiries on the spot.

At the 2022 EGM, the Company obtained the approval of its independent shareholders and the approval of its shareholders of the corresponding agenda items set forth in the 2022 EGM notice attached to the Company's circular dated 1 December 2022, and during the 2022 EGM, the Company responded to its shareholder's enquiries on the spot.

During the year under review, the Board reviewed the implementation and effectiveness of the shareholders communication policy, and based on the foregoing and the different communication channels available to the Company's shareholders thereunder and their effectiveness, the Board has considered that such policy has remained effective.

In the ESG context, please refer to the Company's separate 2022 ESG report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report.

Communications with Key Stakeholders

The Company proactively communicates with its key stakeholders (in addition to its shareholders, including without limitation employees, suppliers, customers and non-governmental organisations) through various communication channels to keep them abreast of the Company's strategies, objectives, latest developments, etc.

For details, please refer to the section headed "Overview on Mechanisms for Independent Views and Inputs" above and, in the ESG context, the Company's separate 2022 ESG report as issued and published simultaneously upon the issuance and publication of the annual report incorporating this report.

SHAREHOLDERS' RIGHTS

Shareholders' Right to convene Extraordinary General Meeting and Add Resolutions to Meeting Agenda

The Company has formulated and maintained the memorandum on shareholder rights (forming part of the Manual) which has been amended and adopted by the Board on 15 March 2022 and the new version has become effective upon approval and adoption by the Company's shareholders of the Articles at the 2022 AGM. The memorandum on shareholder rights sets out (among other things) its shareholders' right to convene the Company's extraordinary general meeting ("EGM") and right to add resolutions to the meeting agenda of the EGM as follows:

- Pursuant to Article 68 of the Articles, the relevant shareholder(s) is/are entitled to convene an extraordinary general meeting of the Company ("EGM") upon written requisition in the following manner for transaction of any business or resolution specified on such written requisition:

  (a) Upon the written requisition of any one or more shareholders deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company. Such requisitionist(s) shall also be able to add resolutions to the meeting agenda of the EGM convened upon his/their written requisition, provided that such additional resolutions shall be deposited at the principal place of business of the Company in Hong Kong not less than 15 business days before the EGM; or

  (b) Upon the written requisition of any one Shareholder who is a recognised clearing house (as defined in the Articles) or its nominee(s) deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company. Such requisitionist shall also be able to add resolutions to the meeting agenda of the EGM convened upon its written requisition, provided that such additional resolutions shall be deposited at the principal place of business of the Company in Hong Kong not less than 15 business days before the EGM.

- If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the requisitionist(s) himself/herself/themselves (or any of them representing more than one-half of the total voting rights of all of them) may convene the EGM in the same manner, as nearly as possible, as that in which EGMs may be convened by the Board, provided that any EGM so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to him/her/them by the Company.

Procedures for Shareholders' Enquiries

The Company has formulated and maintained the shareholders communication policy (forming part of the Manual) setting out (among other things) the procedures by which enquiries may be put to the Board as more particularly described in the section headed "Shareholder Relations" above.

Shareholders' Right to put forward Proposals at General Meetings

The Company has formulated and maintained the procedures for shareholders to propose candidates for election as a director of the Company (forming part of the Manual), which is accessible on the website of the Company. The procedures for shareholders to propose candidate for election as a director of the Company have been amended and adopted by the Board on 15 March 2022 and the new version has taken effect from 20 May 2022 when the Company's shareholders approved and adopted the Articles. In relation to other proposals which may be put forward at the Company's general meetings, the Company has formulated and maintained the memorandum on shareholder rights (forming part of the Manual) which has been amended and adopted by the Board on 15 March 2022 and the new version has taken effect from 20 May 2022 when the Company's shareholders approved and adopted the Articles. The memorandum on shareholder rights provides for (among other things) the following:

- In the absence of any general mechanism for the shareholders to put forward other proposals at the Company's general meetings (including, for the avoidance of doubt, to add resolutions to the meeting agenda of any such general meetings) under the Cayman Islands Companies Act in force for the time being, the Shareholder(s) can submit a written requisition (in hard copy form or in electronic form) to move a proper resolution at a general meeting of the Company if such Shareholder(s) individually or collectively represent(s) as at the date of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

- The written requisition shall:

  a. state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or other business to be dealt with at the relevant general meeting;

  b. be authenticated by way of the signature(s) of all the requisitionist(s), which may be contained in one document or in several documents in like form; and

  c. be deposited at the principal place of business of the Company in Hong Kong not less than 15 business days before the relevant general meeting. The current address of the Company's principal place of business in Hong Kong is as follows:

     8th Floor, Peninsula Tower
     538 Castle Peak Road
     Cheung Sha Wan, Kowloon
     Hong Kong
     Attention: The Company Secretary

Constitutional Documents

During the year under review, the Company had adopted the second amended and restated Memorandum and Articles of Association of the Company on 20 May 2022 when the Company's shareholders approved and adopted the same. For details of the amendments to the Company's pre-existing Memorandum and Articles of Association, please see the Company's circular dated 14 April 2022. An up-to-date consolidated version of the Company's second amended and restated Memorandum and Articles of Association is available on the websites of the Stock Exchange and the Company respectively.

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