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FIT Hon Teng Limited
鴻騰六零八八精密科技股份有限公司

(Incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as FIT Hon Teng Limited)
(Stock Code: 6088)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED JUNE 30, 2023

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended June 30, 2023 amounted to US\$1,784 million, representing a YoY decrease of 15.1% as compared to US\$2,101 million for the six months ended June 30, 2022.
- Loss for the six months ended June 30, 2023 amounted to US\$9 million as compared to profit of US\$85 million for the six months ended June 30, 2022.
- Basic loss per share attributable to owners of the Company for the six months ended June 30, 2023 amounted to US0.13 cents as compared to basic earnings per share of US1.23 cents for the six months ended June 30, 2022.
- The Board did not declare any interim dividend for the six months ended June 30, 2023.

The Board is pleased to announce the unaudited interim condensed consolidated results of our Group for the six months ended June 30, 2023 together with the comparative figures for the corresponding period in the previous year and the previous period as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	For the six months ended	
		June 30,	
		2023	2022
		USD'000	USD'000
		(unaudited)	(unaudited)
Revenue	4	1,784,080	2,101,326
Cost of sales	5	(1,500,926)	(1,750,487)
Gross profit		283,154	350,839
Distribution costs and selling expenses	5	(46,596)	(45,882)
Administrative expenses	5	(70,776)	(80,781)
Research and development expenses	5	(139,262)	(135,805)
Impairment loss on financial assets		(1,143)	(273)
Other income		10,293	7,390
Other gains – net		11,500	24,448
Operating profit		47,170	119,936
Finance income		14,907	6,604
Finance costs		(26,776)	(8,698)
Finance costs – net		(11,869)	(2,094)
Share of results of associates		(11,981)	(10,261)
Impairment loss on interest in an associate		(15,795)	–
Profit before income tax		7,525	107,581
Income tax expense	6	(16,204)	(22,095)
(Loss)/profit for the period		(8,679)	85,486
(Loss)/profit attributable to:			
Owners of the Company		(8,952)	85,117
Non-controlling interests		273	369
		(8,679)	85,486
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company (expressed in US cents per share)			
Basic (loss)/earnings per share	7	(0.13)	1.23
Diluted (loss)/earnings per share	7	(0.13)	1.22

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	June 30,	
	2023	2022
	USD'000	USD'000
	(unaudited)	(unaudited)
(Loss)/profit for the period	(8,679)	85,486
Other comprehensive (loss)/income:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	(65,973)	(108,436)
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Fair value change in financial assets at fair value through other comprehensive income	22	(100)
	<hr/>	<hr/>
Total other comprehensive loss for the period, net of tax	(65,951)	(108,536)
	<hr/>	<hr/>
Total comprehensive loss for the period	(74,630)	(23,050)
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	(74,862)	(23,374)
Non-controlling interests	232	324
	<hr/>	<hr/>
	(74,630)	(23,050)
	<hr/> <hr/>	<hr/> <hr/>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at June 30, 2023 <i>USD'000</i> <i>(unaudited)</i>	As at December 31, 2022 <i>USD'000</i> <i>(audited)</i>
ASSETS			
Non-current assets			
Property, plant and equipment		733,868	752,835
Investment property		7,357	7,465
Right-of-use assets		57,725	63,431
Intangible assets		584,073	601,350
Financial assets at fair value through other comprehensive income		26,865	26,873
Financial assets at fair value through profit or loss		37,877	46,573
Interests in associates		95,545	123,321
Deposits and prepayments	9	14,285	10,431
Finance lease receivables		11,758	19,880
Deferred income tax assets		124,893	131,028
		<u>1,694,246</u>	<u>1,783,187</u>
Current assets			
Inventories		792,037	966,793
Trade receivables	9	614,803	720,004
Deposits, prepayments and other receivables	9	78,404	71,389
Finance lease receivables		15,757	15,438
Financial assets at fair value through profit or loss		–	562
Short-term bank deposits		25,901	65,829
Cash and cash equivalents		1,383,557	914,045
		<u>2,910,459</u>	<u>2,754,060</u>
Asset classified as held for sale		15,000	9,936
		<u>2,925,459</u>	<u>2,763,996</u>
Total current assets		<u>2,925,459</u>	<u>2,763,996</u>
Total assets		<u><u>4,619,705</u></u>	<u><u>4,547,183</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		142,382	142,160
Treasury shares		(91,865)	(91,759)
Reserves		2,219,862	2,294,946
		<u>2,270,379</u>	<u>2,345,347</u>
Non-controlling interests		<u>1,824</u>	<u>1,592</u>
Total equity		<u><u>2,272,203</u></u>	<u><u>2,346,939</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Note</i>	As at June 30, 2023 <i>USD'000</i> <i>(unaudited)</i>	As at December 31, 2022 <i>USD'000</i> <i>(audited)</i>
LIABILITIES			
Non-current liabilities			
Bank borrowings		–	574,732
Lease liabilities		38,610	43,450
Deferred income tax liabilities		31,189	34,678
Deposits received and other payables	<i>10</i>	5,464	8,024
		<u>75,263</u>	<u>660,884</u>
Current liabilities			
Trade and other payables	<i>10</i>	793,388	971,006
Contract liabilities		5,460	10,173
Lease liabilities		7,519	7,699
Bank borrowings		1,401,812	452,655
Current income tax liabilities		51,740	97,827
Financial liabilities at fair value through profit or loss		12,320	–
		<u>2,272,239</u>	<u>1,539,360</u>
Total liabilities		<u>2,347,502</u>	<u>2,200,244</u>
Total equity and liabilities		<u>4,619,705</u>	<u>4,547,183</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE GROUP

Foxconn Interconnect Technology Limited (the “**Company**”, carrying on business in Hong Kong as “**FIT Hon Teng Limited**”) was incorporated in the Cayman Islands as an exempted company with limited liability under the laws of the Cayman Islands.

The Group is principally engaged in the manufacturing and sales of mobile and wireless devices, connectors applied in the communication, computer and automotive markets, and trading and distribution of mobile device related products.

The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The ultimate holding company of the Company is Hon Hai Precision Industry Co., Ltd. (“**Hon Hai**”) and the immediate holding company of the Company is Foxconn (Far East) Limited (“**Foxconn HK**”), a wholly owned subsidiary of Hon Hai.

The interim condensed consolidated financial information is presented in United States Dollar (“**USD**”) unless otherwise stated.

2 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information for the six months ended June 30, 2023 is prepared in accordance with International Accounting Standard (“**IAS**”) 34, “Interim Financial Reporting” and should be read in conjunction with the annual financial statements for the year ended December 31, 2022 (the “**Annual Financial Statements**”), which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES

The accounting policies applied are consistent with those as described in the Annual Financial Statements, except for the adoption of new and amended standards as set out in note 3(i).

(i) New standards and amendments adopted by the Group

The Group has applied the following new standards and amendments which are mandatory for the financial year beginning January 1, 2023 and are relevant to its operations:

IFRS 17 and Amendments to IFRS 17	Insurance contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies
Amendments to IAS 8	Definition of accounting estimates
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules

The new standards and amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(ii) Amendments to standards which are not yet effective for this financial period and have not been early adopted by the Group

The Group has not early adopted the following amendments to standards that have been issued but are not yet effective for the period:

		Effective for accounting periods beginning on or after
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2024
Amendments to IAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to IFRS 7 and IAS 7	Supplier Finance Arrangements	1 January 2024
Amendments to IAS 16	Lease liability in sale and leaseback	1 January 2024
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

4 SEGMENT INFORMATION

The operating segment is reported in the manner consistent with the internal reporting provided to the Chief Operating Decision Makers (“**CODM**”). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that make strategic decisions. CODM assesses the performance of the operating segment based on revenue.

The Group was organized into two main operating segments namely (i) intermediate products and (ii) consumer products. Intermediate products relate to the manufacturing and sales of mobile and wireless devices, connectors applied in the communication, computer and automotive markets. The Group’s intermediate products are mainly manufactured through its production complexes in the People’s Republic of China (the “**PRC**”) and Vietnam. Consumer products refer to the trading and distribution of mobile device related products. The Group’s consumer products are mainly manufactured by its production complexes or other third party manufacturers in the PRC and Vietnam and distributed globally.

Accordingly, the Group presents the revenue and corresponding assets and liabilities for the segments, and does not allocate expenses or the other assets to the respective segments.

Segment revenue and results

For the six months ended June 30, 2023, the Group's revenue by operating segment is as follows:

	Intermediate products USD'000 (unaudited)	Consumer products USD'000 (unaudited)	Total USD'000 (unaudited)
Revenue	1,526,610	318,146	1,844,756
Inter-segment revenue eliminations	(60,676)	–	(60,676)
Revenue from external customers	<u>1,465,934</u>	<u>318,146</u>	<u>1,784,080</u>
Gross profit			283,154
Unallocated:			
Operating expenses			(257,777)
Other income			10,293
Other gains – net			11,500
Finance costs – net			(11,869)
Share of results of associates			(11,981)
Impairment loss on interest in an associate			(15,795)
Profit before income tax			<u><u>7,525</u></u>

For the six months ended June 30, 2022, the Group's revenue by operating segment is as follows:

	Intermediate products USD'000 (unaudited)	Consumer products USD'000 (unaudited)	Total USD'000 (unaudited)
Revenue	1,915,638	295,010	2,210,648
Inter-segment revenue eliminations	(109,322)	–	(109,322)
Revenue from external customers	<u>1,806,316</u>	<u>295,010</u>	<u>2,101,326</u>
Gross profit			350,839
Unallocated:			
Operating expenses			(262,741)
Other income			7,390
Other gains – net			24,448
Finance costs – net			(2,094)
Share of results of associates			(10,261)
Profit before income tax			<u><u>107,581</u></u>

For the six months ended June 30, 2023 and 2022, revenue by product lines is as follows:

	For the six months ended June 30,	
	2023	2022
	USD'000	USD'000
	(unaudited)	(unaudited)
Smartphones	445,883	577,628
Networking	218,936	373,151
Computing	377,342	403,926
EV mobility	71,644	76,169
System products	578,893	571,558
Others	91,382	98,894
	1,784,080	2,101,326

The comparative figures in the above analysis have been restated to conform with current period's classification in revenue by products.

For the six months ended June 30, 2023 and 2022, revenue by geographical areas is as follows:

	For the six months ended June 30,	
	2023	2022
	USD'000	USD'000
	(unaudited)	(unaudited)
United States of America	952,956	969,903
The PRC	284,973	412,372
Taiwan	173,664	269,728
United Kingdom	95,361	89,090
Hong Kong	84,783	116,447
Singapore	41,244	35,916
Ireland	32,774	32,898
Malaysia	7,933	38,910
Others	110,392	136,062
	1,784,080	2,101,326

The analysis of revenue by geographical segment is based on the location of the major operation of customers.

For the six months ended June 30, 2023, there were two customers (2022: two customers), which individually contributed over 10% of the Group's total revenue. During the period, the revenue contributed from these customers are as follows:

	For the six months ended June 30,	
	2023	2022
	USD'000	USD'000
	(unaudited)	(unaudited)
Customer A	744,002	773,619
Customer B	230,528	303,203

Customer A refers to a cluster of customers consisting of a brand company and its nominated contract manufacturers; Customer B is a group of related companies.

Segment assets and liabilities

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

As at June 30, 2023:

	Intermediate products USD'000 (unaudited)	Consumer products USD'000 (unaudited)	Total USD'000 (unaudited)
Assets			
Segment assets	<u>1,324,322</u>	<u>879,707</u>	<u>2,204,029</u>
Unallocated:			
Property, plant and equipment			733,868
Investment property			7,357
Right-of-use assets			57,725
Intangible assets			4,466
Financial assets at fair value through other comprehensive income			26,865
Financial assets at fair value through profit or loss			37,877
Interests in associates			95,545
Finance lease receivables			27,515
Short-term bank deposits			25,901
Cash and cash equivalents			1,383,557
Asset classified as held for sale			<u>15,000</u>
Total assets			<u><u>4,619,705</u></u>
Liabilities			
Segment liabilities	<u>730,704</u>	<u>156,537</u>	<u>887,241</u>
Unallocated:			
Bank borrowings			1,401,812
Lease liabilities			46,129
Financial liabilities at fair value through profit or loss			<u>12,320</u>
Total liabilities			<u><u>2,347,502</u></u>

As at December 31, 2022:

	Intermediate products <i>USD'000</i> <i>(audited)</i>	Consumer products <i>USD'000</i> <i>(audited)</i>	Total <i>USD'000</i> <i>(audited)</i>
Assets			
Segment assets	1,591,572	903,485	2,495,057
Unallocated:			
Property, plant and equipment			752,835
Investment property			7,465
Right-of-use assets			63,431
Intangible assets			5,938
Financial assets at fair value through other comprehensive income			26,873
Financial assets at fair value through profit or loss			47,135
Interests in associates			123,321
Finance lease receivables			35,318
Short-term bank deposits			65,829
Cash and cash equivalents			914,045
Asset classified as held for sale			9,936
Total assets			<u>4,547,183</u>
	Intermediate products <i>USD'000</i> <i>(audited)</i>	Consumer products <i>USD'000</i> <i>(audited)</i>	Total <i>USD'000</i> <i>(audited)</i>
Liabilities			
Segment liabilities	950,676	171,032	1,121,708
Unallocated:			
Bank borrowings			1,027,387
Lease liabilities			51,149
Total liabilities			<u>2,200,244</u>

The geographical analysis of the Group's non-current assets (other than intangible assets, financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, interests in associates, finance lease receivables and deferred income tax assets) is as follows:

	As at June 30, 2023 <i>USD'000</i> <i>(unaudited)</i>	As at December 31, 2022 <i>USD'000</i> <i>(audited)</i>
The PRC	541,038	569,077
Vietnam	209,222	204,612
United States of America	42,277	42,669
Taiwan	15,180	12,787
Singapore	1,242	1,251
Others	4,276	3,766
	<u>813,235</u>	<u>834,162</u>

5 EXPENSES BY NATURE

	For the six months ended June 30,	
	2023 <i>USD'000</i> <i>(unaudited)</i>	2022 <i>USD'000</i> <i>(unaudited)</i>
Cost of inventories, including reversal/provision for impairment of inventories	1,052,310	1,213,514
Subcontracting expenses	9,918	24,476
Utilities	28,450	28,332
Employee benefit expenses	358,325	399,004
Amortization of intangible assets	17,602	20,847
Depreciation of property, plant and equipment	84,829	95,903
Depreciation of investment property	108	–
Depreciation of right-of-use assets	7,845	9,566
Mouldings and consumables	61,060	82,345
Legal and professional expenses	33,788	21,226
Delivery expenses	31,285	50,451
Other tax and related surcharges	9,577	8,987
Others	62,463	58,304
	<u>1,757,560</u>	<u>2,012,955</u>

6 INCOME TAX EXPENSE

Income tax expense is recognized based on management best estimate of the weighted average annual income tax rates expected for the full financial year. The amounts of income tax expense charged to the interim condensed consolidated income statement represent:

	For the six months ended June 30,	
	2023	2022
	USD'000	USD'000
	(unaudited)	(unaudited)
Current income tax	13,558	35,330
Deferred income tax	2,646	(13,235)
Income tax expense	16,204	22,095

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue, excluding treasury shares, during the six months ended June 30, 2023 and 2022.

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
Net (loss)/profit attributable to the owners of the Company (USD'000)	(8,952)	85,117
Weighted average number of ordinary shares in issue (in thousands)	7,084,811	6,926,858
Basic (loss)/earnings per share in US cents	(0.13)	1.23

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the six months ended June 30, 2023, there were two (for the six months ended June 30, 2022: three) outstanding share-based compensation schemes and no share-based compensation scheme has dilutive effect to the (loss)/earnings per share (for the six months ended June 30, 2022: senior management share grant scheme).

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
Net (loss)/profit attributable to the owners of the Company (USD'000)	<u>(8,952)</u>	<u>85,117</u>
Weighted average number of ordinary shares in issue (in thousand)	7,084,811	6,926,858
Adjustment for:		
– impact of the senior management and employees' share grant schemes (in thousand)	<u>–</u>	<u>31,137</u>
Weighted average number of ordinary shares for diluted (loss)/earnings per share (in thousand)	<u>7,084,811</u>	<u>6,957,995</u>
Diluted (loss)/earnings per share in US cents	<u>(0.13)</u>	<u>1.22</u>

8 DIVIDEND

No interim dividend in respect of the six months ended June 30, 2023 has been declared as of the date of this announcement (for the six months ended June 30, 2022: nil).

9 TRADE AND OTHER RECEIVABLES

	As at June 30, 2023 <i>USD'000</i> <i>(unaudited)</i>	As at December 31, 2022 <i>USD'000</i> <i>(audited)</i>
Trade receivables due from third parties	500,717	570,383
Trade receivables due from related parties	<u>116,747</u>	<u>151,139</u>
Total trade receivables – gross	617,464	721,522
Less: loss allowances for impairment of trade receivables	<u>(2,661)</u>	<u>(1,518)</u>
Total trade receivables – net	614,803	720,004
Deposits and prepayments	39,644	33,273
Other receivables	20,439	8,659
Amounts due from related parties	7,048	10,343
Value added tax recoverable	<u>25,558</u>	<u>29,545</u>
	92,689	81,820
Less: non-current portion		
Deposits and prepayments	<u>(14,285)</u>	<u>(10,431)</u>
	<u>78,404</u>	<u>71,389</u>
Current portion	<u>693,207</u>	<u>791,393</u>

For trade receivables, the credit period granted to third parties and related parties are ranging from 45 to 90 days.

The aging analysis of trade receivables based on invoice date, before loss allowance, as at June 30, 2023 and December 31, 2022 is as follows:

	As at June 30, 2023 <i>USD'000</i> <i>(unaudited)</i>	As at December 31, 2022 <i>USD'000</i> <i>(audited)</i>
Within 3 months	601,565	621,350
3 months to 1 year	14,328	99,355
Over 1 year	<u>1,571</u>	<u>817</u>
	<u>617,464</u>	<u>721,522</u>

10 TRADE AND OTHER PAYABLES

	As at June 30, 2023 <i>USD'000</i> <i>(unaudited)</i>	As at December 31, 2022 <i>USD'000</i> <i>(audited)</i>
Trade payables due to third parties	437,710	588,199
Trade payables due to related parties	<u>97,636</u>	<u>72,549</u>
Total trade payables	535,346	660,748
Amounts due to related parties	14,909	17,019
Staff salaries, bonuses and welfare payables	86,376	87,401
Deposits received, other payables and accruals	<u>162,221</u>	<u>213,862</u>
	798,852	979,030
Less: non-current portion	<u>(5,464)</u>	<u>(8,024)</u>
Current portion	<u>793,388</u>	<u>971,006</u>

As at June 30, 2023 and December 31, 2022, the aging analysis of the trade payables to third parties and related parties of trading in nature based on invoice date is as follows:

	As at June 30, 2023 <i>USD'000</i> <i>(unaudited)</i>	As at December 31, 2022 <i>USD'000</i> <i>(audited)</i>
Within 3 months	497,333	651,752
3 months to 1 year	37,480	8,431
Over 1 year	<u>533</u>	<u>565</u>
	<u>535,346</u>	<u>660,748</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

Business Overview

For the six months ended June 30, 2023, faced with the challenges of declining demand in the consumer electronics market, as well as the impact of the decline in shipments of high-end smartphones from branded companies, the decrease in global demand for personal computers and the destocking of midstream and downstream server inventories, our results declined, with a drop in profit performance due to the decrease in revenue. As discussed in more detail below in the section headed “Results of Operations”, our revenue amounted to US\$1,784 million for the six months ended June 30, 2023, representing a decrease of 15.1% as compared to the same period in 2022. The net profit decreased from US\$85 million for the six months ended June 30, 2022 to a net loss of US\$9 million for the same period in 2023.

Smartphone component products continued to be our main source of revenue by end market. For the six months ended June 30, 2023, our component products were impacted by lower shipments of high-end smartphones from branded companies. As a result, revenue generated from the smartphone end market for the six months ended June 30, 2023 decreased by 22.8% as compared to the same period in 2022.

For the networking end market, we strived to improve our product portfolio, and reduce the proportion of low-margin optical module products. On the other hand, the shipments of copper-based components also declined due to the destocking of midstream and downstream server inventories. As a result, revenue generated from the networking end market decreased by 41.3% for the six months ended June 30, 2023 as compared to the same period in 2022.

For the computing end market, although we seized the business opportunities in acoustic components, our overall revenue was still affected by the downturn in the computing market. For the six months ended June 30, 2023, revenue generated from the computing end market decreased by 6.6% as compared to the same period in 2022.

For the EV mobility end market, although our EV component product business was making expected progress, revenue from corresponding auto part products decreased as individual customers changed some parts solutions from standard to optional. For the six months ended June 30, 2023, revenue generated from the EV mobility end market decreased by 5.9% as compared to the same period in 2022.

For the system products end market, shipments of wireless charging products for new watches increased due to higher market demand for such products, which was offset by the decline in shipments of acoustic products from branded customers. For the six months ended June 30, 2023, revenue generated from the system products end market increased by 1.3% as compared to the same period in 2022.

INDUSTRY OUTLOOK AND BUSINESS PROSPECTS

Industry Outlook

The global connector industry is undergoing rapid technical development with superior product functionality and higher compatibility, which enables connector products to be used in more application scenarios. In the future, for products across various application fields, we believe connectors that have better compatibilities will be more popular in the market. In such an environment, we have seized emerging market opportunities and built brand awareness globally, thereby rapidly expanding our market share.

Smartphones. Although the global demand for smartphone is affected by inflation, with a decline in willingness to consume and potential downward trend in phone shipments, we remain positive on the high-end smartphone market and will continue to seize business opportunities for related components.

Networking. The demand for artificial intelligence and cloud services have led to the creation of greater data center capacity. Data centers require a variety of physical connectors, routers, electricity, signals, and networks, which generate heavy demand for connectors. We will grasp the three major trends of data centers: greater power saving, higher power conversion efficiency, and more open standard platform to meet customers' demand for innovative connectors and create market potential.

Computing. The steady need for various connectors in the computing end market has laid a solid foundation for the demand for connectors. However, corporate and consumer spending becomes more conservative due to the general economic uncertainty and inflation, and market demand is expected to decline in the second half of 2023.

EV Mobility. We expect the market demand for “power management, vehicle-to-everything and human-to-machine interface” products to be boosted by the increasing demand for EV mobility and the gradual increase in the attach rate of in-vehicle infotainment-related products.

System Products. With the continuous pursuit of entertainment experience, and the fact that wireless Bluetooth earphones have become one of the most popular earphones among the consumers, entertainment related system products will have a potential growth trend in the coming year along with the growth in the technological field.

Business Prospects

Affected by the overall industry prospects, we anticipate the connector industry and the end industry of our products may be affected by various uncertainties in the second half of 2023. We plan to continuously focus on the EV mobility end market. The performance in the second half of 2023 is expected to increase as compared to the same period in 2022:

- *Smartphones*. Due to the strong momentum in the shipments of brand companies' smartphone components in 2022, we expect the momentum will slow down due to inflation. However, we anticipate that this end market will continue to be our main revenue contributor.
- *Networking*. Due to the change in the landscape of the optical module business, we believe the demand for the midstream and downstream servers will recover from the fourth quarter of this year, which will affect the overall performance of the networking business in the second half of 2023.
- *Computing*. Industry growth is expected to continue to slow down, so we will focus more on profitability rather than revenue growth.
- *EV mobility*. We believe the demand from our key customers in this end market will continue to be strong, and we expect to benefit from such industry trends. We will continue to strategically pursue opportunities in the emerging application of our interconnect solutions and other products, and expand customer access, technological development and manufacturing base through the newly acquired German automotive wiring harness manufacturer. Furthermore, our strategic partnership with Hon Hai Group places us in a good position to capture the emerging future opportunities in the automotive electronics market.
- *System products*. Despite the general uncertainties affecting the weak consumer electronics market, we will remain competitive with our products and expand global presence to meet customer needs.

RESULTS OF OPERATIONS

Revenue

We derive our revenue mainly from the sale of our connector product solutions and other products and also a small portion from the sale of mold parts and sample products and others. For the six months ended June 30, 2023, our revenue amounted to US\$1,784 million, representing a 15.1% decrease from US\$2,101 million for the same period in 2022. Among the six main end markets, our revenue from (1) the smartphones end market decreased by 22.8%, (2) the networking end market decreased by 41.3%, (3) the computing end market decreased by 6.6%, (4) the EV mobility end market decreased by 5.9%, and (5) the system products end market increased by 1.3%. The following table sets forth our revenue by end markets in absolute amounts and as percentages of revenue for the years indicated:

	For the Six Months Ended June 30,			
	2023		2022	
	<i>US\$</i>	<i>%</i>	<i>US\$</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Smartphones	445,883	25.0	577,628	27.5
Networking	218,936	12.3	373,151	17.8
Computing	377,342	21.2	403,926	19.2
EV mobility	71,644	4.0	76,169	3.6
System products	578,893	32.4	571,558	27.2
Others	91,382	5.1	98,894	4.7
Total	<u>1,784,080</u>	<u>100.0</u>	<u>2,101,326</u>	<u>100.0</u>

Smartphones. The 22.8% decrease in revenue from the smartphones end market was primarily due to the fact that our component products were impacted by lower shipments of high-end smartphones from branded companies.

Networking. The 41.3% decrease in revenue from the networking end market was primarily due to the fact that we strived to improve our product portfolio, and reduce the proportion of low-margin optical module products. On the other hand, the shipments of copper-based components also declined due to the destocking of midstream and downstream server inventories.

Computing. The revenue from the computing end market decreased by 6.6%, which was primarily due to less revenue from laptop and tablet related products as a result of the downturn in the overall computing market.

EV Mobility. The revenue from the EV mobility end market decreased by 5.9%, which was primarily due to the decrease in revenue generated from our auto part products as individual customers changed some parts solutions from standard to optional.

System products. The revenue from the system products end market increased by 1.3%, which was primarily due to the increase in shipment volume as a result of increased demand for wireless charging products for new watches.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales decreased by 14.2% from US\$1,750 million for the six months ended June 30, 2022 to US\$1,501 million for the same period in 2023. Our cost of sales primarily includes (1) raw materials and consumables used, (2) consumption of inventories of finished goods and work in progress, (3) employee benefit expenses in connection with our production personnel, (4) depreciation of property, plant and equipment, (5) subcontracting expenses, (6) utilities, molding and consumable expenses, and (7) other costs associated with the production and shipments of our interconnect solutions and other products. For the six months ended June 30, 2023, the decrease was primarily driven by decrease in global demand of consumer electronic devices and lower logistics costs.

As a result of the foregoing, our gross profit decreased by 19.4% from US\$351 million for the six months ended June 30, 2022 to US\$283 million for the same period in 2023, primarily due to the reduction in shipments of products. Our gross profit margin decreased from 16.7% for the six months ended June 30, 2022 to 15.9% for the same period in 2023, primarily due to decreased shipments of products with high gross profit as a result of the change in market.

Distribution Costs and Selling Expenses

Our distribution costs and selling expenses increased by 2.2% from US\$46 million for the six months ended June 30, 2022 to US\$47 million for the same period in 2023, primarily due to expenses for promotions and online channels.

Administrative Expenses

Our administrative expenses decreased by 12.3% from US\$81 million for the six months ended June 30, 2022 to US\$71 million for the same period in 2023, primarily due to the decrease in staffing costs.

Research and Development Expenses

Our research and development expenses primarily consist of (1) employee benefit expenses paid to our research and development personnel, (2) molding and consumables expenses relating to the moldings used in research and development, (3) depreciation of molds and molding equipment and (4) other costs and expenses in connection with our research and development activities. Our research and development expenses increased by 2.2% from US\$136 million for the six months ended June 30, 2022 to US\$139 million for the same period in 2023, mainly due to the increase in molding and consumables expenses.

Operating Profit and Operating Profit Margin

As a result of the foregoing, our operating profit decreased by 60.8% from US\$120 million for the six months ended June 30, 2022 to US\$47 million for the same period in 2023, primarily due to the decreasing demand from brand customers. Our operating profit margin decreased from 5.7% for the six months ended June 30, 2022 to 2.6% for the same period in 2023.

Income Tax Expense

We incur income tax expenses primarily relating to our operations in China, Taiwan, United States, and Vietnam. Our income tax expenses decreased by 27.3% from US\$22 million for the six months ended June 30, 2022 to US\$16 million for the same period in 2023, which was primarily due to the decrease in operating profit in these countries.

Loss/Profit for the period

As a result of the decrease in operating profit, profit for the period decreased from a profit of US\$85 million for the six months ended June 30, 2022 to a loss of US\$9 million for the same period in 2023. Our profit margin decreased from 4.1% for the six months ended June 30, 2022 to -0.5% for the same period in 2023.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity, Working Capital and Borrowings

We finance our operations primarily through cash generated from our operating activities and bank borrowings. As of June 30, 2023, we had cash and cash equivalents of US\$1,384 million, compared to US\$914 million as of December 31, 2022. In addition, as of June 30, 2023, we had short-term bank deposits of US\$26 million, compared to US\$66 million as of December 31, 2022.

As of June 30, 2023, we had total bank borrowings of US\$1,402 million, which are entirely comprised of short-term borrowings, as compared to US\$1,027 million as of December 31, 2022, including short-term borrowings of US\$452 million and long-term borrowings of US\$575 million. We obtained bank borrowings mainly for our working capital purpose and to supplement our capital needs for investment and acquisition activities.

Our current ratio, calculated using current assets divided by current liabilities, was 1.3 times as of June 30, 2023, compared to 1.8 times as of December 31, 2022. Our quick ratio, calculated using current assets less inventories divided by current liabilities, was 0.9 times as of June 30, 2023, compared to 1.2 times as of December 31, 2022. The decrease in our current ratio and quick ratio was primarily due to the syndicated loan maturing within 12 months. Therefore, the syndicated loan has been classified as short-term bank borrowing as of June 30, 2023.

Cash Flow

For the six months ended June 30, 2023, our net cash generated from operating activities was US\$203 million, net cash used in investing activities was US\$50 million, and net cash generated from financing activities was US\$351 million.

Capital Expenditures

Our capital expenditures primarily relate to the purchases of land use rights, property, plant and equipment and intangible assets (exclusive of goodwill). We finance our capital expenditures primarily through cash generated from our operating activities and bank borrowings.

For the six months ended June 30, 2023, our capital expenditures amounted to US\$95 million, as compared to US\$57 million for the same period in 2022. The capital expenditures for the six months ended June 30, 2023 were primarily used for upgrading, maintaining, and converting production facilities, including expanding the sites and adding equipment to the factories.

Significant Investments, Acquisitions and Disposals

On May 3, 2023, the Company entered into a share purchase agreement with, in addition to other selling shareholders, K2 Acquisition Corporation (“K2”), an independent third party of the Company, pursuant to which, among others, the Company conditionally agreed to sell, and K2 conditionally agreed to purchase, 2,270,947 shares of Autotalks Ltd. (“Autotalks”) (as converted upon occurrence of a conversion event as stipulated in the simple agreement for future equity entered into previously, representing 4.39% of the issued share capital of Autotalks) at a consideration of US\$15 million (the “Autotalks Disposal”). The consideration was determined with reference to market conditions. The Company recorded a fair value gain of US\$5 million (before tax and expenses) from the Autotalks Disposal. Following the completion of the Autotalks Disposal, the Company will cease to hold any interests in Autotalks. For more details, please refer to the announcement of the Company dated May 3, 2023.

Save as disclosed above, we did not have any significant investment, material acquisitions or material disposals during the six months ended June 30, 2023.

Inventories

Our inventories consist primarily of raw materials, work in progress and finished goods. We review our inventory levels on a regular basis to manage the risk of excessive inventories. Our average inventory turnover days for the six months ended June 30, 2023 were 105 days as compared to 94 days in 2022. The higher inventory turnover days for the six months ended June 30, 2023 were primarily due to the slow down in the demand for consumer electronic devices.

Our inventories decreased from US\$967 million as of December 31, 2022 to US\$792 million as of June 30, 2023, primarily due to the demand for consumer electronic devices having slowed down and the destocking of inventories activities we have taken.

Provision for inventory impairment decreased from US\$66 million as of December 31, 2022 to US\$60 million as of June 30, 2023, which is in line with the decrease in the inventory balance during the period.

Trade Receivables

Our trade receivables are receivables from our third party and related party customers for the sale of our interconnect solutions and other products.

We typically grant to our third party and related party customers a credit period ranging from 45 days to 90 days. Our average number of trade receivables turnover days decreased from 71 days in 2022, to 67 days for the six months ended June 30, 2023, mainly due to the decrease in quarter-end trade receivables as of June 30, 2023. Our average number of trade receivables turnover days for related parties for the six months ended June 30, 2023 was 106 days as compared to 97 days in 2022.

Our trade receivables decreased from US\$720 million as of December 31, 2022 to US\$615 million as of June 30, 2023, primarily due to the reduction in shipments of products as a result of the decrease in global demand of consumer electronic devices.

Trade Payables

Our trade payables primarily relate to the procurement of raw materials. Our average trade payables turnover days for the six months ended June 30, 2023 were 73 days, remaining stable as compared to 70 days for 2022.

Our trade payables decreased from US\$661 million as of December 31, 2022 to US\$535 million as of June 30, 2023, primarily due to decreased procurement as a result of the decrease in global demand of consumer electronic devices.

Major Capital Commitments

As of June 30, 2023, we had capital commitments of US\$269 million, which were primarily connected to the purchase of property, plant, and equipment related to our production facilities, investments and acquisition of business.

Contingent Liabilities

As of June 30, 2023, we did not have any significant contingent liability, guarantee or any litigation against us that would have a material impact on our financial position or results of operations.

Gearing ratio

Our gearing ratio is calculated as net debts (which are calculated as total borrowings less cash and cash equivalents and short term bank deposits) divided by total capital. As of June 30, 2023, we had net cash position while the gearing ratio as of December 31, 2022 was 2%.

PLEDGE OF ASSETS

As of June 30, 2023, (i) certain bank deposits totaling RMB5.7 million (approximately US\$0.8 million) of Chongqing Hon Teng Technology Co., Ltd. (重慶市鴻騰科技有限公司) and Huaian Fu Li Tong Trading Co., Ltd. (淮安市富利通貿易有限公司) have been pledged as customs guarantee; (ii) certain bank deposits totaling VND8,500 million (approximately US\$0.4 million) of New Wing Interconnect Technology (Bac Giang) Co., Ltd have been pledged as power purchase guarantee; and (iii) certain bank deposits totaling US\$0.8 million of Belkin International Inc. have been pledged as Travel and Entertainment (T&E) corporate card guarantee.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As of June 30, 2023, we had approximately 52,488 employees, as compared to 53,544 employees as of December 31, 2022. Total employee benefit expenses including Directors' remuneration were US\$358 million, as compared to US\$399 million for the same period in 2022. Remuneration is determined with reference to performance, skills, qualifications, and experience of the staff concerned and in accordance with the prevailing industry practice.

In addition to salaries and wages, other employee benefit expenses include cash bonus, pension, housing fund, medical insurance, and other social insurances, as well as share-based payment expenses and others. We made certain share grants under our Share Grant Scheme prior to our IPO. We also adopted the Share Option Scheme and the Restricted Share Award Schemes to offer valuable incentives to attract and retain quality personnel. We have been evaluating, and may adopt, new share incentive schemes that comply with the requirements of the Listing Rules. The remuneration of the Directors is reviewed by the Remuneration Committee and approved by the Board. The relevant Director's experience, duties and responsibilities, time commitment, the Company's performance, and the prevailing market conditions are taken into consideration in determining the emolument of the Directors.

FOREIGN EXCHANGE RISK

We operate in various locations and most of our sales, purchases and other transactions are denominated in U.S. dollars, New Taiwan dollars and Renminbi. Foreign exchange fluctuations may have a significant positive or negative effect on our results of operations. A majority of our Group's entities are exposed to foreign currency risks related to purchasing, selling, financing and investing in currencies other than the functional currencies in which the entities operate. As we enter into transactions denominated in currencies other than the functional currencies in which we or our subsidiaries operate, we face foreign currency risk to the extent that the amounts and relative proportions of various currencies in which our costs and liabilities are denominated deviate from the amounts and relative proportions of the various currencies in which our sales and assets are denominated.

Our interim condensed consolidated financial information is reported in U.S. dollar. Our PRC and other non-U.S. subsidiaries prepare financial statements in Renminbi or their respective local currencies as their functional currencies, which are then translated into U.S. dollar prior to being consolidated in our financial information. As a result, changes in the value of the U.S. dollar relative to the functional currencies of these subsidiaries create translation gains and losses in other comprehensive income or loss upon consolidation. In addition, as our PRC and other non-U.S. subsidiaries generally have significant U.S. dollar-denominated sales with and accounts receivables due from the Group entities, depreciation of the U.S. dollar would result in foreign exchange losses while appreciation of the U.S. dollar would result in foreign exchange gains.

To further mitigate the foreign exchange risk, we have also adopted a prudent foreign exchange hedging policy. We have implemented internal procedures to monitor our hedging transactions which include limitations on transaction types and transaction value, formulation and review of hedging strategies in light of different market risks involved and other risk management measures. Under such policy, we enter into forward foreign exchange contracts for hedging purposes only but not for speculative purposes. As of June 30, 2023, the nominal principal amount of our forward foreign exchange contracts was US\$610 million.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Messrs. TANG Kwai Chang, CURWEN Peter D and CHAN Wing Yuen Hubert. The unaudited interim condensed consolidated financial information of our Group for the six months ended June 30, 2023 has been reviewed by the Audit Committee.

PricewaterhouseCoopers, the external auditor of the Company, has also reviewed the unaudited interim condensed consolidated financial information for the period in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

SUBSEQUENT EVENTS

On December 31, 2022 (German time), Foxconn Interconnect Technology Singapore Pte. Ltd. (“**FITS**”), a wholly-owned subsidiary of the Company entered into a share purchase agreement with Prettl Produktions Holding GmbH (“**Prettl Produktions**”) and SWH International Holding GmbH (“**SWH International**”), pursuant to which FITS conditionally agreed to purchase, and Prettl Produktions and SWH International conditionally agreed to sell, 25,000 shares (or 100%) of Prettl SWH GmbH (“**Prettl SWH**”) owned by Prettl Produktions as to 51% and SWH International as to 49% as of December 31, 2022, for a consideration of EUR186,600,000 subject to various adjustments (the “**Prettl Acquisition**”). On July 3, 2023, the Prettl Acquisition closed pursuant to the terms of the share purchase agreement with a total consideration of EUR188,770,000 and as a result, Prettl SWH became a wholly-owned subsidiary of the Company.

For more details, please refer to the announcements of the Company dated January 2, 2023 and July 3, 2023.

CORPORATE GOVERNANCE PRACTICE

The Board is committed to maintaining high corporate governance standards.

During the six months ended June 30, 2023, the Company has applied the principles as set out in the CG Code contained in Appendix 14 to the Listing Rules which are applicable to the Company, and has complied with all applicable code provisions as set out in the CG Code, except the code provision as mentioned below.

Code provision C.2.1 states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. LU Sung-Ching is both the Company’s chairman and chief executive officer, and is responsible for the overall management of our Group and directing the strategic development and business plans of our Group. Given the current stage of development of our Group, the Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group’s business strategies. Also, the Board considers that this situation will not impair the balance of power and authority between the Board and the management of the Company because the balance of power and authority is governed by the operations of the Board which comprises experienced and high caliber individuals with demonstrated integrity. Furthermore, decisions of the Board are made by way of majority votes. The Board shall nevertheless review the structure from time to time in light of the prevailing circumstances. The Board will continue to review the situation and consider splitting the roles of chairman and chief executive officer in due course after taking into account the then overall circumstances of the Group.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. The Company has made specific inquiries to all Directors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code during the six months ended June 30, 2023.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the Shares as may be purchased by the trustee from time to time pursuant to the Restricted Share Award Schemes, during the six months ended June 30, 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended June 30, 2023.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of HKEx at www.hkexnews.hk and on the Company's website at <http://www.fit-foxconn.com>. The interim report of the Company for the six months ended June 30, 2023 will be published on the aforesaid websites and dispatched to Shareholders in due course.

DEFINITION

“Audit Committee”	the audit committee of the Board;
“Board” or “Board of Directors”	the board of Directors of the Company;
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
“China” or “PRC”	The People's Republic of China; for the purpose of this announcement only, references to “China” or the “PRC” do not include Taiwan, the Macau Special Administrative Region, and Hong Kong;
“Company”	FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司), a company incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as FIT Hon Teng Limited, the Shares of which are listed on the Main Board of the Stock Exchange;
“Directors”	directors of the Company;
“EUR”	Euro, the lawful currency of the member states of the European Union;
“First Restricted Share Award Scheme”	the restricted share award scheme approved and adopted by the Company on January 31, 2018 and amended on May 15, 2018 (as restated, supplemented and amended from time to time);

“Group”, “our Group”, “we” or “us”	the Company and its subsidiaries;
“HKEx”	Hong Kong Exchanges and Clearing Limited;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Hon Hai”	Hon Hai Precision Industry Co., Ltd. (鴻海精密工業股份有限公司), a limited liability company established in Taiwan and listed on the Taiwan Stock Exchange (Stock Code: 2317), and the controlling Shareholder;
“Hon Hai Group”	Hon Hai and its subsidiaries and (where relevant) 30%-controlled entities and, for the purpose of this announcement, excluding the Group;
“IFRS”	International Financial Reporting Standards;
“IPO”	the initial public offering of Shares and listing of the Company on the Stock Exchange on July 13, 2017;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and supplemented from time to time;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
“New Taiwan dollars”	New Taiwan dollars, the lawful currency of Taiwan;
“Remuneration Committee”	the remuneration committee of the Board;
“Restricted Share Award Schemes”	the First Restricted Share Award Scheme and the Second Restricted Share Award Scheme;
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC;
“Second Restricted Share Award Scheme”	the restricted share award scheme approved and adopted by the Company on February 11, 2019 (as restated, supplemented and amended from time to time);
“Share(s)”	ordinary share(s) of US\$0.01953125 each in the issued capital of the Company or if there has been a subsequent sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company;

“Shareholder(s)”	holder(s) of the Share(s);
“Share Grant Scheme”	the share grant scheme approved and adopted by the Company on January 5, 2015, and the Board further adopted the rules and interpretations thereof on November 4, 2016;
“Share Option Scheme”	the share option scheme of the Company approved and adopted by our Shareholders on December 19, 2017 and expired on December 31, 2018;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“U.S.” or “United States”	the United States of America;
“US\$”, “USD” or “U.S. dollar(s)”	United States dollars, the lawful currency of the United States; references to “US cent(s)” mean cents in U.S. dollars;
“Vietnam”	the Socialist Republic of Vietnam;
“VND”	Vietnamese dong, the lawful currency of Vietnam;
“YoY”	year-on-year; and
“%”	percent.

By order of the Board
FIT Hon Teng Limited*
LU Sung-Ching
Chairman of the Board

Hong Kong, August 7, 2023

As of the date of this announcement, the Board comprises Mr. LU Sung-Ching, Mr. LU Pochin Christopher and Mr. PIPKIN Chester John as executive Directors, Mr. TRAINOR-DEGIROLAMO Sheldon as non-executive Director, and Mr. CURWEN Peter D, Mr. TANG Kwai Chang and Mr. CHAN Wing Yuen Hubert as independent non-executive Directors.

* *Incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as FIT Hon Teng Limited*