

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **FIH Mobile Limited**, you should at once hand this circular to the purchaser or the transferee or to the licensed bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Bharat FIH Limited (the “**Securities**”). This circular does not constitute and is not an offer to sell or the solicitation of an offer to buy any of the Securities in Hong Kong, the United States of America or elsewhere. Bharat FIH Limited has not registered and does not intend to register any of the Securities under the U.S. Securities Act and the Securities may not be offered or sold in the United States of America absent registration under the U.S. Securities Act or an exemption from registration under the U.S. Securities Act.

**FIH® 富智康®**

**FIH Mobile Limited**

**富智康集團有限公司**

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

**(Stock Code: 2038)**

**POSSIBLE MAJOR TRANSACTION IN RELATION TO  
THE POSSIBLE SPIN-OFF AND SEPARATE LISTING OF  
BHARAT FIH LIMITED ON BSE LIMITED AND  
NATIONAL STOCK EXCHANGE OF INDIA LIMITED**

**Financial Adviser to the Company**



**SOMERLEY CAPITAL LIMITED**

**Independent Financial Adviser to  
the Independent Board Committee and the Shareholders**

 **HALCON 鎧盛**

A letter from the Board is set out on pages 4 to 16 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Shareholders is set out on page 17 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders is set out on pages 18 to 36 of this circular.

This circular is despatched to the Shareholders for information purposes only and a written shareholder's approval has been obtained in lieu of holding a general meeting of the Company pursuant to the Listing Rules.

Hong Kong, 24 December 2021

<b>CONTENTS</b>
-----------------

	<i>Page</i>
<b>DEFINITIONS .....</b>	<b>1</b>
<b>LETTER FROM THE BOARD .....</b>	<b>4</b>
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE .....</b>	<b>17</b>
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER .....</b>	<b>18</b>
<b>APPENDIX I — FINANCIAL INFORMATION OF THE GROUP .....</b>	<b>37</b>
<b>APPENDIX II — GENERAL INFORMATION .....</b>	<b>48</b>

## DEFINITIONS

*In this circular, the following terms shall have the meanings stated below unless the context otherwise requires:*

“BFIH”	Bharat FIH Limited, a company incorporated in India and an indirect wholly-owned subsidiary of the Company
“BFIH Group”	BFIH and its subsidiaries
“Board”	the board of Directors
“BSE”	BSE Limited, an Indian stock exchange located in Mumbai, India
“close associate”	has the meaning ascribed to it in the Listing Rules
“Company”	FIH Mobile Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“DRHP”	the draft red herring prospectus of BFIH dated 21 December 2021 in relation to the proposed initial public offering of its Equity Shares
“EMS”	Electronics Manufacturing Services
“Equity Shares”	equity shares of BFIH of face value of INR10 each
“FEMA Rules”	the Foreign Exchange Management (Non-debt Instruments) Rules of India, 2019, as amended from time to time
“Foxconn Far East”	Foxconn (Far East) Limited, the direct controlling shareholder of the Company and a direct wholly-owned subsidiary of Hon Hai
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hon Hai”	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd., for identification purposes only), the ultimate controlling shareholder of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

## DEFINITIONS

“Independent Board Committee”	the independent committee of the Board comprising all of the independent non-executive Directors which has been established by the Company to advise the Shareholders in relation to the Proposed Spin-off
“Independent Financial Adviser”	Halcyon Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the Proposed Spin-off
“India”	the Republic of India
“INR”	Indian Rupees, the lawful currency of India
“Latest Practicable Date”	20 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“NSE”	National Stock Exchange of India Limited, an Indian stock exchange located in Mumbai, India
“percentage ratios”	has the meaning ascribed to it in the Listing Rules
“Practice Note 15”	Practice Note 15 of the Listing Rules
“Proposed Spin-off”	the proposed spin-off of BFIH by way of an initial public offering of its Equity Shares and listing on the BSE and NSE
“Remaining Group”	the Group (excluding the BFIH Group)
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“SEBI”	the Securities and Exchange Board of India
“SEBI ICDR Regulations”	the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended from time to time
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time

## DEFINITIONS

“Share(s)”	ordinary share(s) of US\$0.04 each of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“U.S.”	the United States of America
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended from time to time
“US\$”	United States dollars, the lawful currency of the U.S.

*In this circular, the figures in INR have been converted into HK\$ at the rate of INR1.00: HK\$0.1051 for indicative purposes only, and should not be construed as a representation that any amount has been, could have been or may be, exchanged at this or any other rate.*

LETTER FROM THE BOARD



**FIH Mobile Limited**

**富智康集團有限公司**

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

**(Stock Code: 2038)**

*Executive Directors:*

CHIH Yu Yang (*Acting Chairman and  
Chief Executive Officer*)

KUO Wen-Yi

MENG Hsiao-Yi (*Chief Operating Officer*)

*Independent Non-Executive Directors:*

LAU Siu Ki

Daniel Joseph MEHAN

TAO Yun Chih

*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

24 December 2021

*To the Shareholders*

Dear Sir or Madam,

**POSSIBLE MAJOR TRANSACTION IN RELATION TO  
THE POSSIBLE SPIN-OFF AND SEPARATE LISTING OF  
BHARAT FIH LIMITED ON BSE LIMITED AND  
NATIONAL STOCK EXCHANGE OF INDIA LIMITED**

**1. INTRODUCTION**

The Company refers to the announcement dated 22 December 2021 in relation to the proposed spin-off and separate listing of BFIH, its Indian subsidiary which is the largest EMS provider in India by share of EMS market revenue, on BSE and NSE, which are the two main stock exchanges in India.

## LETTER FROM THE BOARD

The purpose of this circular is to provide Shareholders with, among other things, further information on the Proposed Spin-off, the advice and recommendation of the Independent Board Committee and the advice of the Independent Financial Adviser in relation to the Proposed Spin-off.

### **2. THE PROPOSED SPIN-OFF**

#### **(a) Overview of the Proposed Spin-off**

The Proposed Spin-off involves the spin-off and separate listing of BFIH on BSE and NSE. In relation to the Proposed Spin-off, the Company submitted an application to the Stock Exchange pursuant to Practice Note 15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

On 21 December 2021, BFIH filed the DRHP with SEBI, BSE and NSE in relation to the proposed initial public offering of its Equity Shares and will make an application for the in-principle approval for the listing of its Equity Shares on BSE and NSE. When BSE and NSE officially provide their respective in-principle approvals, the details of each such in-principle approval will be disclosed in the red herring prospectus which will be filed with the Registrar of Companies, Tamil Nadu, India.

It is expected that the Proposed Spin-off will involve (i) an offer for subscription by way of an initial public offering of new Equity Shares to be issued by BFIH and (ii) an offer for sale of existing Equity Shares by the Company (through its subsidiary, Wonderful Stars Pte. Ltd.), with (i) and (ii) together representing in aggregate up to 25% of the enlarged issued share capital of BFIH immediately upon completion of the Proposed Spin-off (including any exercise of the over-allotment option to be granted to the book running lead managers).

BFIH is currently an indirect wholly-owned subsidiary of the Company. Following the completion of the Proposed Spin-off, the Company's shareholding interest in BFIH is expected to be reduced to not less than 75% and therefore, BFIH will remain as a subsidiary of the Company and the Company will continue to consolidate the financial results of the BFIH Group in its consolidated financial results.

The Proposed Spin-off (if it proceeds) is expected to be completed in 2022.

#### **(b) Conditions of the Proposed Spin-off**

The Proposed Spin-off will be conditional upon, among other things, (i) the approval of the Proposed Spin-off by the Shareholders (which approval has been obtained by way of written Shareholder's approval as described below); (ii) BFIH receiving in-principle approvals from BSE and NSE for the listing of the Equity Shares on BSE and NSE, respectively; (iii) the filing of BFIH's red herring prospectus and prospectus with the Registrar of Companies, Tamil Nadu, India and (iv) the entering into an underwriting agreement by BFIH, Wonderful Stars Pte. Ltd. and the underwriters of the initial public offering of the Equity Shares and such underwriting agreement becoming unconditional in accordance with its terms.

## LETTER FROM THE BOARD

### **(c) Intended Use of Proceeds from the Proposed Spin-off by BFIH and the Company**

The specific size of the proposed offering of Equity Shares (including in the event of over-subscription) pursuant to the Proposed Spin-off will be determined in accordance with the SEBI ICDR Regulations and the applicable SEBI guidelines, rules, regulations and circulars and has not been determined at this stage and accordingly, the aggregate proceeds to be raised from the Proposed Spin-off and to be received by BFIH and the Company cannot be determined.

However, it is currently expected that the BFIH Group would achieve a minimum market capitalisation of not less than INR180.12 billion (approximately HK\$18.9 billion) immediately upon completion of the Proposed Spin-off. Assuming that the Proposed Spin-off will involve an offering of Equity Shares representing in aggregate 25% of the enlarged issued share capital of BFIH immediately upon completion of the Proposed Spin-off (including any exercise of the over-allotment option to be granted to the book running lead managers), with each of BFIH and the Company offering 50% of the Equity Shares in the proposed offering, it is currently expected that (i) the minimum size of the proposed offering of Equity Shares will be not less than INR45.02 billion (approximately HK\$4.7 billion) and (ii) the minimum gross proceeds to be received by each of BFIH and the Company will be not less than INR22.51 billion (approximately HK\$2.37 billion).

BFIH currently intends to use the net proceeds which it will receive from the issue of new Equity Shares pursuant to the Proposed Spin-off for investment in new technology and equipment so as to upgrade and expand the BFIH Group's campuses in India and for its working capital and general corporate purposes.

The Company currently intends to use the net proceeds which it will receive from the sale of existing Equity Shares pursuant to the Proposed Spin-off as follows:

- (i) not less than 40% of the net proceeds will be used to pay a special cash dividend to the Shareholders. Assuming the Proposed Spin-off proceeds and is completed in 2022, the Board expects to declare, and the Company expects to pay, the special cash dividend to the Shareholders as soon as practicable following the completion of the Proposed Spin-off; and
- (ii) the balance of the net proceeds will be used to finance the Company's working capital requirements and maintain a healthy capital structure and adequate cash for its continuing operations, and to mitigate the exposures of unforeseen market risks, and for the Company's capital commitments and other investments for future business growth and development when opportunities arise. The Company currently expects to use any cash amounts for capital commitments and other investments as referred to above within 36 months of the completion of the Proposed Spin-off.

Further announcements will be made by the Company when the final size of the proposed offering of Equity Shares and the expected proceeds to be raised from the Proposed Spin-off have been determined.

**(d) Proposed Special Cash Dividend by the Company**

As disclosed in the Company's 2021 Interim Report, the Company has adopted the following dividend policy which aims at enhancing transparency and facilitating the 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 on 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 last few years and the COVID-19 pandemic and the U.S. ban and component shortages have led to a lot of uncertainties for the coming periods of time and the Group requires time to recover and to maintain a healthy capital structure. As such, the Company had not paid a dividend to the Shareholders since 2017. The Company will continue to closely monitor the situation and where it considers necessary, it will adjust and/or enhance its dividend policy as appropriate.

To give due regard to the interests of the Shareholders by allowing them to directly benefit from the Proposed Spin-off (and taking into account that the Company would not be able to provide the Shareholders with an assured entitlement to Equity Shares pursuant to the Proposed Spin-off due to the legal restrictions and practical difficulties as further described in section headed “5. *Waiver of Assured Entitlement to the Equity Shares*” below) and subject to the Proposed Spin-off being completed, the Company proposes to pay a special cash dividend to the Shareholders of an aggregate amount which will not be less than 40% of the net proceeds to be received by the Company from the sale of existing Equity Shares pursuant to the Proposed Spin-off. Details of the special cash dividend, including the amount and timing of payment, have not been finalised and will be announced by the Company in due course.

**3. INFORMATION ON THE BFIH GROUP AND THE REMAINING GROUP**

**(a) Information on the BFIH Group**

BFIH is the largest EMS provider in India by share of EMS market revenue and conducts its operations across three campuses based in South India. The BFIH Group provides EMS for Original Equipment Manufacturers (“OEMs”) of mobile phones as well as mechanics, electric vehicles, televisions, hearables, telecom and networking products and IT hardware.

In addition to its EMS services, which mainly comprise manufacturing services, BFIH is building the capabilities to provide OEMs, who are its brand-owning customers, with a comprehensive, vertically integrated “one-stop solution” comprising a range of Original Design Manufacturing (“ODM”) services including product design and development, component manufacturing and sourcing, logistics, and after-sales services. BFIH's service offerings are aimed at enabling its customers to reduce manufacturing costs, improve supply chain management, reduce inventory obsolescence and product fulfilment time, and accelerate their time-to-market and time-to-volume and time-to-money requirements.

## LETTER FROM THE BOARD

Selected financial information of the BFIH Group which has been extracted from the restated financial statements of BFIH as at and for the financial years ended 31 March 2020 and 2021 and the six months ended 30 September 2021 (which were derived from the audited financial statements of BFIH for such periods) are set out below:

<i>(in million)</i>	<b>Year ended 31 March 2020</b>	<b>2021</b>	<b>Six months ended 30 September 2021</b>
<b>Revenue from operations</b>	INR266,355.58 (HK\$27,993.97)	INR158,548.58 (HK\$16,663.46)	INR101,557.92 (HK\$10,673.74)
<b>Profit before tax</b>	INR4,733.74 (HK\$497.52)	INR1,965.05 (HK\$206.53)	INR1,195.08 (HK\$125.60)
<b>Profit after tax</b>	INR3,897.13 (HK\$409.59)	INR1,619.15 (HK\$170.17)	INR891.71 (HK\$93.72)
	<b>As at 31 March 2020</b>	<b>2021</b>	<b>As at 30 September 2021</b>
<b>Net assets</b>	INR26,738.78 (HK\$2,810.25)	INR28,357.35 (HK\$2,980.36)	INR29,254.92 (HK\$3,074.69)
<b>Total assets</b>	INR86,231.52 (HK\$9,062.93)	INR87,120.91 (HK\$9,156.41)	INR87,132.01 (HK\$9,157.57)

### **(b) Information on the Remaining Group**

The Remaining Group is a vertically integrated manufacturing services provider with business models offering a comprehensive range of end-to-end components and manufacturing and engineering services to its customers in respect of handsets and other wireless communication devices and consumer electronic products, including unique and innovative product development and design, casings (including casings sold to customers and casings used to manufacture complete handsets for delivery to customers), components, Printed Circuit Board Assembly, full-system assembly, etc., and supply chain services and solutions, and repair and other after-sales services which are located close to the customers. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as e-Readers, tablets and voice interaction products like smart speakers. The Remaining Group operates a network of sites and centres of excellence strategically located in Mainland China, Vietnam, Taiwan, Mexico and the U.S..

There is a clear delineation between the business of the BFIH Group and the Remaining Group as each of them has a different core business and operates in different geographical locations. In contrast to the BFIH Group which is an EMS provider in India, the Remaining Group is focused on the manufacturing outside of India of mobile phone handsets and other electronic products such as e-Readers, tablets and voice interaction products like smart speakers (which are not manufactured by the BFIH Group) and it also provides repair and refurbishment and other after-sales services which are located close to the customers outside of India (which are not provided by the BFIH Group). Each of the BFIH Group and the Remaining Group has independent access to its own customers and suppliers and each of them has separate sales and sourcing teams.

## LETTER FROM THE BOARD

Each of the BFIH Group and the Remaining Group is managed by separate core management teams. Following the completion of the Proposed Spin-off, BFIH's core management will continue to function independently from the Remaining Group and will not have any directorship and/or ongoing management role with the Remaining Group.

Each of the BFIH Group and the Remaining Group has sufficient cash flows to carry on its respective operations, has its own banking facilities and is able to obtain financing independently of the other group and therefore is able to operate financially independently of the other group.

In addition, on completion of the Proposed Spin-off, the Remaining Group will satisfy all of the requirements under paragraph 3(c) of Practice Note 15 and retain a sufficient level of operations and sufficient assets to support its separate listing status on the Stock Exchange.

Following the completion of the Proposed Spin-off, it is currently expected that the transactions between the BFIH Group and the Remaining Group will continue to comprise the sale and purchase of materials, the purchase of property, plant and equipment and the lease of properties in India by the BFIH Group, all of which will be entered into in the ordinary course of business and on an arm's length basis. As BFIH will remain as a subsidiary of the Company and will not be listed on the Stock Exchange, such transactions between the BFIH Group and the Remaining Group will not constitute connected transactions under Chapter 14A of the Listing Rules but will instead be governed by the applicable rules and regulations under Indian law, including the Indian Companies Act, 2013, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the rules and regulations of BSE and NSE.

#### **4. FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP**

BFIH will be an indirect non wholly-owned subsidiary of the Company upon the completion of the Proposed Spin-off. The following is the expected financial effects of the Proposed Spin-off on the Group.

##### **(a) Earnings**

The BFIH Group will continue to be accounted for as subsidiaries of the Company following the completion of the Proposed Spin-off and the financial results of the BFIH Group will continue to be consolidated into the accounts of the Group. The effect of the Proposed Spin-off on the future earnings of the Group will depend on, among other things, the future business operations and performance of the BFIH Group as well as the return generated from the net proceeds raised from the Proposed Spin-off after payment of the proposed special cash dividend by the Company.

The Proposed Spin-off will be regarded as a transaction with non-controlling interest and the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in BFIH. It is expected that there would be no gain or loss on the deemed disposal and the Proposed Spin-off to be recognised in the Company's consolidated statement of profit or loss and other comprehensive income upon completion of the Proposed Spin-off in accordance with International Financial Reporting Standards 10. The difference between the amount by which the non-controlling interest is adjusted and the net proceeds raised from the Proposed Spin-off will be recorded in equity attributed to the owners of the Company (i.e. other reserve). In addition, as the proportion of the Company's shareholding in BFIH will

## LETTER FROM THE BOARD

be diluted immediately upon completion of the Proposed Spin-off, it is expected that the earnings attributable to the owners of the Company contributed by BFIH will decrease while the earnings attributable to non-controlling interests of the Company will increase.

### **(b) Assets and Liabilities**

The BFIH Group will continue to be accounted for as subsidiaries of the Company following the completion of the Proposed Spin-off and the financial position of the BFIH Group will continue to be consolidated into the accounts of the Group.

The Proposed Spin-off will increase the number of Equity Shares of BFIH and will raise corresponding proceeds from the issuance of Equity Shares of BFIH. The net proceeds from the new Equity Shares to be issued by BFIH under the Proposed Spin-off together with the sale of existing Equity Shares by the Company (through its subsidiary, Wonderful Stars Pte. Ltd.) will increase the cash recorded in the consolidated statement of financial position of the Group and the total assets will increase accordingly. Apart from certain professional fees, commissions and other necessary fees/charges (if any), in relation to the Proposed Spin-off, it is expected that there would be no other material expenses or significant increase in liabilities of the Group as a result of the Proposed Spin-off.

Therefore, the net asset value of the Group would have been enhanced as a result of the Proposed Spin-off while offset by the proposed payment of special dividend to be paid after completion of the Proposed Spin-off and relevant professional fees, commissions and other necessary fees/charges (if any) incurred in relation to the Proposed Spin-off. The estimated change in the Group's net assets as mentioned above is based on, among others, the current terms of the Proposed Spin-off. Accordingly, the actual change in the Group's net assets, which will be calculated based on the final structure of the Proposed Spin-off and the then financial position of the BFIH Group immediately upon the completion of the Proposed Spin-off, may be different from the above estimation.

## **5. WAIVER OF ASSURED ENTITLEMENT TO THE EQUITY SHARES**

Paragraph 3(f) of Practice Note 15 requires the Company to have due regard to the interests of its existing Shareholders by providing them with an assured entitlement to the Equity Shares in the Proposed Spin-off, either by way of a distribution in specie of existing Equity Shares or by way of a preferred application in the offering of existing or new Equity Shares (the “**Assured Entitlement**”).

## LETTER FROM THE BOARD

BFIH's Indian legal adviser (the "**Indian Legal Adviser**") has advised that the Proposed Spin-off would constitute an "initial public offer" under the SEBI ICDR Regulations and accordingly, Equity Shares may be offered pursuant to the Proposed Spin-off by way of a new issuance of Equity Shares by BFIH or a sale of existing Equity Shares by the Company only to members of the public. The Indian Legal Adviser has further advised that under the applicable Indian regulations, the Shareholders cannot be allotted or transferred Equity Shares pursuant to the Proposed Spin-off for no consideration (i.e. there cannot be an in specie distribution of Equity Shares to the Shareholders for no consideration) and each Shareholder would be required to make a valid bid for the Equity Shares pursuant to the Proposed Spin-off at or above the final offer price determined upon the completion of the book building process. In addition, the Indian Legal Adviser has advised that under the FEMA Rules, the subscription or purchase of Equity Shares by persons who are resident outside India (and specifically in Mainland China and Hong Kong) will be subject to the prior approval of the Government of India as further detailed below. Accordingly, the Assured Entitlement to the Shareholders cannot be provided by way of a distribution in specie of Equity Shares.

With respect to the preferred application in the issuance and offering of Equity Shares, the Indian Legal Adviser has advised that pursuant to the SEBI ICDR Regulations, an issuer company may reserve a portion of up to 10% of its securities under an initial public offering for subscription by shareholders (other than promoters and the promoter group) of the listed subsidiaries or listed promoter companies (the "**Qualifying Shareholders**" and the shares under such reservation, the "**Reserved Shares**") on a competitive basis.

Although the Reserved Shares may be available to the Qualifying Shareholders of the Company, given the legal restrictions under the applicable laws and regulations of India and the practical difficulties, the Assured Entitlement to the Shareholders by way of preferred application in any offering of existing or new Equity Shares in BFIH will not be feasible for the following reasons:

- (i) as advised by the Indian Legal Adviser, the investment by the majority of the Shareholders, who are located in Mainland China and Hong Kong, under the Proposed Spin-off will be subject to the prior approval of the Government of India;
- (ii) applications for any such approval would be scrutinised by the Government of India on a case-by-case basis. Given that there is no published criteria or guideline to be applied in considering whether the Government of India would grant such approval, the likelihood of it granting such approval cannot currently be ascertained. While the standard operating procedure for processing foreign direct investment proposals published in November 2020 prescribes a time limit of 10 to 12 weeks from the date of filing of the proposal for taking a decision on such proposal, there is currently no reliable indication as to when such approval would be granted given the number of Shareholders who would need to obtain such approval. In addition, such applications can only be submitted by the Shareholders after the record date, being the date of filing of the red herring prospectus by BFIH, for determining their entitlement to

## LETTER FROM THE BOARD

participate in the proposed offering of Equity Shares. As the period from such record date through to the book building process, pricing and closing of the proposed offering is expected to be around two to three weeks, there would not be sufficient time for Shareholders to complete the application and approval process. While no fees are payable by an applicant to the relevant Indian authorities for the above approval from the Government of India, the applicant will need to incur legal and other costs for making such application, which will vary depending on the circumstances of such applicant and could cost more than US\$10,000. The Indian Legal Adviser has advised that as similar approvals have not been granted by the Government of India, it is unlikely that the Government of India would grant such approval to allow the Shareholders to acquire Equity Shares pursuant to the Proposed Spin-off. In view of the foregoing, the Board is of the view that it would be impractical, time consuming and costly for the Shareholders to make an application for such approval which is unlikely to be granted by the Government of India;

- (iii) even if BFIH is able to obtain the approval for the Qualifying Shareholders of the Company to participate in the Proposed Spin-off, under the applicable Indian regulations, BFIH is not permitted to provide a pre-determined ratio/preferred application in the Proposed Spin-off to the Qualifying Shareholders of the Company for the following reasons:
  - (a) the SEBI ICDR Regulations requires an issuer company undertaking an initial public offering to determine the price of the equity shares through the book-building process, and the final offer price will only be determined upon the completion of the book building process;
  - (b) pursuant to the SEBI ICDR Regulations and the relevant SEBI guidelines, the Qualifying Shareholders of the Company are required to bid for the Reserved Shares within the price band in a lot of shares or multiples thereof as disclosed in the pre-initial public offering advertisement (the “**Bid Lots**”). BFIH may determine the minimum number of Equity Shares of a Bid Lot in accordance with the relevant SEBI guidelines. However, BFIH cannot determine the number of Bid Lots that a Qualifying Shareholder of the Company can submit in the Proposed Spin-off; and
  - (c) pursuant to the SEBI ICDR Regulations and the relevant SEBI guidelines, BFIH can only allot Equity Shares to the Qualifying Shareholders of the Company who have submitted valid bids for the Reserved Shares at or above the final offer price so determined upon the completion of the book building process, on a proportionate basis in case of an over-subscription. Accordingly, BFIH cannot pre-determine the entitlement to, or provide a preferential allocation of, the Reserved Shares to the Qualifying Shareholders of the Company; and

## LETTER FROM THE BOARD

- (iv) there are also practical difficulties under the applicable Indian regulations for the provision of the Reserved Shares including, but not limited to, the Qualifying Shareholders of the Company being required to open bank accounts and securities accounts with institutions authorised by the relevant competent authorities in India, and deal with “know your client”, personal taxation and foreign exchange matters, which is a time-consuming application process and would incur costs in relation thereto. Therefore, the Qualifying Shareholders of the Company, as well as the Company and BFIH, would incur extra costs, which might be material to the value that the Qualifying Shareholders of the Company might receive from their respective Reserved Shares, and time-consuming administrative work in relation to the application for the Reserved Shares (such as government approval, account opening and handling taxation and foreign exchange matters).

Accordingly, in view of the above, the Board is of the view that it would be impractical for the Company to provide the Reserved Shares to the Qualifying Shareholders of the Company. Further, the above legal restrictions under the applicable Indian regulations cannot be overcome even if the minority Shareholders are asked to approve the waiver of the Assured Entitlement requirement at general meeting of the Shareholders. Therefore, the Board considers that it would be irrelevant and otherwise unnecessary and inappropriate for the Company to convene a general meeting of the Shareholders to consider and if thought fit, approve a waiver of the Assured Entitlement requirement.

Upon the completion of the Proposed Spin-off, the Equity Shares will only be listed and traded on BSE and NSE, and for the reasons and benefits as stated in the section headed “6. *Reasons for, and Benefits of, the Proposed Spin-off*” below, the Board is of the view that the Proposed Spin-off (including the waiver of the Assured Entitlement) is fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, even if the Assured Entitlement is not provided to the Shareholders, the Shareholders will directly benefit from the Proposed Spin-off by way of the special cash dividend which is proposed to be paid by the Company upon the completion of the Proposed Spin-off as described in the section headed “2. *The Proposed Spin-off — Proposed Special Cash Dividend by the Company*” above.

In view of the legal restrictions under the applicable Indian regulations in providing the Assured Entitlement to the Shareholders referred to above, the Company will not provide the Assured Entitlement to the Shareholders. The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of paragraph 3(f) of Practice Note 15.

## LETTER FROM THE BOARD

### 6. REASONS FOR, AND BENEFITS OF, THE PROPOSED SPIN-OFF

The Board considers that the Proposed Spin-off will be commercially beneficial to the Company and BFIH for the following reasons:

- (a) **Unlocking the value of the BFIH Group:** The Proposed Spin-off will unlock the value of the BFIH Group for the Shareholders by better identifying and establishing the fair value of the BFIH Group's business and thereby crystallising the value of such business. It is anticipated that such value will represent a substantial enhancement of the Group's existing value within the confines of the Company's listing, which will, in turn, increase the value of the Company to the benefit of all of the Shareholders.
- (b) **Separate identity and fund-raising platform:** The Proposed Spin-off will enable the BFIH Group to establish its own identity as a separately listed group with a separate fund-raising platform and direct and independent access to both equity and debt capital markets to finance its existing operations and future expansion, thereby improving its capital structure. The Proposed Spin-off will also enable the BFIH Group to build on its competence and goodwill and reputation further and be in a better position to negotiate and generate and develop more customers and business for the BFIH Group.
- (c) **Business transparency:** The Proposed Spin-off will further increase the operational, financial and governance transparency of each of the businesses of the BFIH Group and the Remaining Group, thereby allowing equity investors to appraise and assess the operating and financial performance and potential of the two groups as separate corporate groups and also allowing financial institutions, rating agencies and investors to appraise their respective creditworthiness and actual intrinsic value.
- (d) **Focus and clarity of business:** The Proposed Spin-off will enable more direct alignment of the responsibilities and accountability of the management of the BFIH Group and the Remaining Group with their respective operating and financial performance, which would allow both groups to benefit from more efficient decision-making process under separate management and corporate governance structures and responsible financial and performance measurement.
- (e) **Substantial proceeds to the Company:** The Company is expected to receive substantial proceeds from the sale of its existing Equity Shares pursuant to the Proposed Spin-off and as stated in section headed "2. *The Proposed Spin-off — Proposed Special Cash Dividend by the Company*" above, it is currently intended that part of such proceeds will be used to pay a special cash dividend to the Shareholders (so as to allow them to directly benefit from the Proposed Spin-off) and for working capital and general corporate purposes of the Remaining Group.
- (f) **Continued benefit:** As BFIH will remain as a subsidiary of the Company following the completion of the Proposed Spin-off, the Shareholders will be able to participate in any growth and development of the BFIH Group through the Company's majority shareholding in BFIH.

## LETTER FROM THE BOARD

### 7. LISTING RULES IMPLICATIONS

As it is expected that the highest of the applicable percentage ratios in respect of the Proposed Spin-off would exceed 25% but would be less than 75%, the Proposed Spin-off would, if it proceeds, constitute a deemed disposal by the Company and a major transaction for the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of Practice Note 15 and Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting of the Shareholders to consider and approve the Proposed Spin-off.

As at the Latest Practicable Date, Foxconn Far East is interested in 5,081,034,525 Shares, representing approximately 63.43% of the total number of issued Shares. As such, the Proposed Spin-off may be approved by Foxconn Far East by way of its written Shareholder's approval in accordance with Rule 14.44 of the Listing Rules. As at the Latest Practicable Date, the Company has obtained the written approval of the Proposed Spin-off from Foxconn Far East in lieu of holding a general meeting for the approval of the Proposed Spin-off pursuant to Rule 14.44 of the Listing Rules. Therefore, no general meeting of the Shareholders for the approval of the Proposed Spin-off will be convened and held.

In accordance with the requirements of paragraph 3(e)(4) of Practice Note 15:

- (a) the Independent Board Committee comprising all of the independent non-executive Directors has been established by the Company to consider the Proposed Spin-off and to advise the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole, taking into account the recommendation of the Independent Financial Adviser in that regard; and
- (b) Halcyon Capital Limited has been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

### 8. RECOMMENDATION

The Directors (other than the independent non-executive Directors, whose recommendation is set out in the Letter from the Independent Board Committee), having regard to the section headed "*6. Reasons for, and Benefits of, the Proposed Spin-off*" above, are of the view that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (other than the independent non-executive Directors, whose recommendation is set out in the Letter from the Independent Board Committee) would recommend that all Shareholders vote in favour of the ordinary resolution proposed in relation to the Proposed Spin-off if there were a general meeting of the Company held to consider such resolution.

## LETTER FROM THE BOARD

### 9. GENERAL

The proposed subscribers or purchasers of the Equity Shares pursuant to the Proposed Spin-off will be determined following the completion of the book building process. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, such proposed subscribers or purchasers (and their respective ultimate beneficial owners) of Equity Shares pursuant to the Proposed Spin-off are expected to be third parties independent of the Company and its connected persons.

Further announcements will be made by the Company in respect of the Proposed Spin-off as and when appropriate.

**Shareholders and potential investors of the Company are advised to note that the Proposed Spin-off is subject to, among other things, the approvals from the relevant regulators in India, market conditions and other factors. Accordingly, Shareholders and potential investors of the Company should be aware that there is no assurance that the Proposed Spin-off and the proposed payment of a special cash dividend by the Company following the completion of the Proposed Spin-off will take place or as to when it may take place. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the shares of the Company. Any person who is in doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional advisers.**

**This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Equity Shares. This circular does not constitute and is not an offer to sell or the solicitation of an offer to buy any of the Equity Shares in Hong Kong, the United States of America or elsewhere. BFIH has not registered and does not intend to register any of the Equity Shares under the U.S. Securities Act and the Equity Shares may not be offered or sold in the United States of America absent registration under the U.S. Securities Act or an exemption from registration under the U.S. Securities Act.**

### 10. ADDITIONAL INFORMATION

Somerley Capital Limited has been appointed as the financial adviser to the Company in relation to the Proposed Spin-off.

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,  
By Order of the Board  
**CHIH Yu Yang**  
*Acting Chairman*



**FIH Mobile Limited**

**富智康集團有限公司**

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

**(Stock Code: 2038)**

24 December 2021

*To the Shareholders*

Dear Sir or Madam,

**POSSIBLE MAJOR TRANSACTION IN RELATION TO  
THE POSSIBLE SPIN-OFF AND SEPARATE LISTING OF  
BHARAT FIH LIMITED ON BSE LIMITED AND  
NATIONAL STOCK EXCHANGE OF INDIA LIMITED**

We refer to the circular dated 24 December 2021 of the Company (the “**Circular**”) of which this letter forms part. Terms defined in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as the Independent Board Committee to advise you on the fairness and reasonableness of the terms of the Proposed Spin-off, details of which are set out in the letter from the Board contained in the Circular. Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Shareholders in this respect.

We wish to draw your attention to the letter from the Board on pages 4 to 16 of the Circular, which sets out information in connection with the Proposed Spin-off. We also wish to draw your attention to the letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders, which contains its advice in respect of the Proposed Spin-off, set out on pages 18 to 36 of the Circular.

Having considered the principal factors and reasons considered by, and the advice of, Halcyon Capital Limited as set out in its letter of advice, we consider that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend that all Shareholders vote in favour of the ordinary resolution proposed in relation to the Proposed Spin-off if there were a general meeting of the Company held to consider such resolution.

Yours faithfully,  
For and on behalf of the  
**Independent Board Committee**

**LAU Siu Ki**

**Daniel Joseph MEHAN**  
*Independent Non-executive Directors*

**TAO Yun Chih**

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter of advice from Halcyon Capital Limited to the Independent Board Committee and the Shareholders which has been prepared for the purpose of the inclusion in this circular.*



11/F, 8 Wyndham Street  
Central  
Hong Kong

24 December 2021

*To: the Independent Board Committee and the Shareholders*

Dear Sirs,

### **POSSIBLE MAJOR TRANSACTION IN RELATION TO THE POSSIBLE SPIN-OFF AND SEPARATE LISTING OF BHARAT FIH LIMITED ON BSE LIMITED AND NATIONAL STOCK EXCHANGE OF INDIA LIMITED**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the proposed spin-off and separate listing of BFIH, its Indian subsidiary in India, on BSE and NSE (the “**Proposed Spin-off**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 24 December 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Subject to fulfilment of the conditions set out in the section headed “Conditions of the Proposed Spin-off” in the Letter from the Board, it is expected that the Proposed Spin-off will involve (i) an offer for subscription by way of an initial public offering of new Equity Shares to be issued by BFIH and (ii) an offer for sale of existing Equity Shares by the Company (through its subsidiary), (i) and (ii) together representing in aggregate up to 25% of the enlarged issued share capital of BFIH immediately upon completion of the Proposed Spin-off (including any exercise of the over-allotment option to be granted to the book running lead managers).

The specific size of the proposed offering of the Equity Shares (including in the event of over-subscription) pursuant to the Proposed Spin-off will be determined in accordance with the SEBI ICDR Regulations and the applicable SEBI guidelines, rules, regulations and circulars. BFIH is currently an indirect wholly-owned subsidiary of the Company. Following the completion of the Proposed Spin-off, the Company’s shareholding interest in BFIH will be reduced but BFIH will remain as a subsidiary of the Company and the Company will continue to consolidate the financial results of the BFIH Group in its consolidated financial statements.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company submitted an application in relation to the Proposed Spin-off pursuant to Practice Note 15 to the Stock Exchange for approval and the Stock Exchange confirmed that the Company may proceed with the Proposed Spin-off. The Stock Exchange has also granted the Company a waiver from strict compliance with the applicable requirements in relation to the assured entitlements under the Proposed Spin-off as required by paragraph 3(f) of Practice Note 15. Further details regarding the background to the waiver are set out in the section headed “5. *Waiver of Assured Entitlement to the Equity Shares*” in the Letter from the Board of the Circular.

As at the Latest Practicable Date, the Group indirectly holds a 100% equity interest in BFIH. It is intended that the number of new Equity Shares to be issued by BFIH under the Proposed Spin-off together with the sale of existing Equity Shares by the Company will not be more than 25% of the enlarged issued share capital of BFIH after the Proposed Spin-off, of which the ownership of the Company in BFIH will be diluted to not less than 75%. Accordingly, the Proposed Spin-off, if materialised, will constitute a deemed disposal of the Group’s interest in BFIH under Rule 14.29 of the Listing Rules. As it is expected that the highest of the applicable percentage ratios in respect of the Proposed Spin-off would exceed 25% but would be less than 75%, the Proposed Spin-off, if it proceeds, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to the reporting, announcement and Shareholders’ approval requirements under Practice Note 15 and Chapter 14 of the Listing Rules.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Proposed Spin-off. On the date of the Announcement and as at the Latest Practicable Date, Foxconn Far East is interested in 5,081,034,525 Shares, representing approximately 63.43% of the total number of issued Shares. As such, the Proposed Spin-off was approved by the Shareholders by way of Foxconn Far East’s written Shareholder’s approval in accordance with Rule 14.44 of the Listing Rules and the Company had obtained written approval of the Proposed Spin-off from Foxconn Far East in lieu of holding a general meeting for the approval of the Proposed Spin-off pursuant to Rule 14.44 of the Listing Rules. Therefore, no general meeting of the Company for the approval of the Proposed Spin-off will be convened and held.

An independent board committee comprising all the independent non-executive Directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih, has been established to advise the Shareholders in respect of the Proposed Spin-off and we have been appointed as the independent financial adviser to advise the Shareholders as to (i) whether the terms of the Proposed Spin-off are fair and reasonable; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) on how to vote if a general meeting would have been held.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### OUR INDEPENDENCE

In the last two years from the date of our appointment, we have no other relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid/payable to us in connection with our appointment, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence. We are therefore independent under the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Shareholders in connection with the Proposed Spin-off.

### BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Shareholders, we have relied on the information, financial information and the facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and continue to be so as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors and/or the management of the Group have confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analysis were based upon, among others, the information provided by the Group including the announcement of the Company dated 22 December 2021 in respect of the Proposed Spin-off, the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”), the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim Report**”), the Circular, and certain published information from the public domain.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the Proposed Spin-off and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification or appraisal of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or the prospects of the Group (including the BFIH Group), the BSE and NSE markets or any of their respective subsidiaries or associates. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any shares or any other securities of the Company.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions for the Proposed Spin-off, we have considered the following principal factors and reasons:

### 1. Background and financial information of the Group

The Group is 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.

After completion of the Proposed Spin-off, the Remaining Group will continue to offer 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, including unique and innovative product development and design casing, components, PCBA, full-system assembly and supply chain services and solutions, and repair and refurbishment and other after-sales services which are located close to customers. Geographical coverage of the Remaining Group after completion of the Proposed Spin-off will mainly comprise of an operating network of sites and centres located in the PRC, Taiwan, Mexico and the United States of America. Save for four subsidiaries located in India which do not carry on manufacturing operations and through the BFIH Group, immediately following the completion of the Proposed Spin-off, the Remaining Group will not have direct operations in India.

Set out below are the financial information of the Group for the six months ended 30 June 2021 and the two years ended 31 December 2020 as extracted from the 2021 Interim Report and the 2020 Annual Report, respectively:

	For the year ended 31 December			For the six months ended 30 June		
	2019	2020		2020	2021	
	US\$'000	US\$'000	% change	US\$'000	US\$'000	% change
Revenue	14,378,658	8,934,746	(37.9%)	3,668,273	3,937,867	7.3%
Gross profit/(loss)	253,279	95,205	(62.4%)	(2,665)	62,317	(2,438.3%)
Loss before tax	(4,585)	(148,977)	3,149.2%	(86,952)	(31,414)	(63.9%)
Income tax (expense)/credit	(27,932)	(24,859)	(11.0%)	(14,346)	3,085	(121.5%)
Loss for the year/period	(12,178)	(173,836)	1,327.5%	(101,298)	(28,329)	(72.0%)

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December 2020 US\$'000	As at 30 June 2021 US\$'000
Total assets	6,032,074	5,702,525
Total liabilities	3,950,006	3,649,201
Total equity	2,082,068	2,053,324

### *Financial performance for the year ended 31 December 2020*

The Group recognised a consolidated revenue of US\$8,935 million for the year ended 31 December 2020, representing a decrease of US\$5,444 million or 37.9% when compared to US\$14,379 million for the same period last year. Net loss for the current period was US\$173.8 million, when compared to a net loss of US\$12.2 million for the same period last year. The impact of COVID-19 has resulted in disruptions, higher costs and supply shortages, and has had an adverse effect on the Group's operating results.

The Group's substantial increase in net loss for the year ended 31 December 2020 was primarily attributable to various factors, including but not limited to (i) the low gross margin of system assembly business as there was continuous pressure on the Group's gross margins due to keen competition and surplus capacity in the market; (ii) the outbreak of COVID-19 in which the Group had extended the Chinese New Year Holiday and temporarily closed its factories and has adversely impacted on not only global supply chains but also consumer demand and the length of demand visibility; (iii) the Sino-U.S. political and economic conflicts had shown no sign of easing in 2020, particularly after the U.S. government took steps to restrict the availability of certain U.S. technologies and materials to specific Mainland Chinese companies, and (among others) the ban on Mainland China's largest chipmaker as well during COVID-19, more people work at home and there were greater demand of products like servers and notebooks and capacity of manufacturing components for phones decreased and had resulted in tighter supplies, and even shortages, in a wide range of common electronic components over the third quarter of 2020, thereby increasing pressure on the supply chain during a typically peak season of demand in the year; and (iv) a substantial loss arising from the impairment and write-off of the Group's under-utilised/obsolete assets, amounting to US\$42.7 million as compared to US\$10.9 million for the same period last year.

### *Financial position as at 31 December 2020*

As at 31 December 2020, the Group recorded total assets of US\$6.0 billion, which mainly comprised of trade and other receivables of US\$2.4 billion and bank balances and cash of US\$1.8 billion. Total liabilities of the Group amounted to US\$4.0 billion, which primarily included trade and other payables of US\$2.8 billion and bank borrowings of US\$0.9 billion. With the net loss recorded for the year ended 31 December 2020 of US\$173.8 million, the Group's total equity recorded a slight decrease to US\$2.08 billion as at 31 December 2020.

***Financial performance for the six months ended 30 June 2021***

The lingering and lasting effect of COVID-19 outbreak and resurgences and related restrictions and lockdowns in some countries have continued to adversely impact factory production, component supply and delivery lead time and prices, global supply chains. The Group continued to record a loss for the period of US\$28.3 million representing a decrease of 72.0% as compared to the corresponding period in 2020. The losses were primarily attributable to relevant factors as explained above regarding the loss for the year in 2020 which had continued to affect the Group in the first half of 2021.

***Financial position as at 30 June 2021***

As at 30 June 2021, the Group recorded total assets of US\$5.7 billion, which mainly comprised of trade and other receivables of US\$2.1 billion and bank balances and cash of US\$1.7 billion. Total liabilities of the Group amounted to US\$3.6 billion, which primarily included trade and other payables of US\$2.5 billion and bank borrowings of US\$1.0 billion. With the net loss recorded for the 6 months period 30 June 2021 of US\$28.3 million, the Group's total equity recorded a slight decrease from US\$2.08 billion as at 31 December 2020 to US\$2.05 billion as at 30 June 2021.

**2. Background and financial information of BFIH Group**

BFIH Group is principally engaged in the provision of electronics manufacturing services for OEMs of mobile phone handsets in India and is diversifying its service offerings to include the manufacturing of other products including telecommunication and wireless device, IT hardware, personal computers and laptops, wearables, television sets, electric vehicles, IoT system and products, AI technology sets and system and other electronic or electrical components and mechanical parts, together with PCBA and accessories and related software licensing and programming. Saved for one Taiwanese subsidiary which provides research, product development, engineering and supply chain services to BFIH Group's Indian operation, BFIH and its Indian subsidiary operate in India only and carry on the business as described herein.

On 21 December 2021, BFIH filed the DRHP with SEBI, BSE and NSE in relation to the proposed initial public offering of its Equity Shares and will make an application for the in-principle approval for the listing of its Equity Shares on BSE and NSE. When BSE and NSE officially provide their respective in-principle approvals, the details of each such in-principle approval will be disclosed in the red herring prospectus which will be filed with the Registrar of Companies, Tamil Nadu, India.

BFIH is currently an indirect wholly-owned subsidiary of the Company. Following the completion of the Proposed Spin-off, the Company's shareholding interest in BFIH is expected to be reduced to not less than 75% and therefore, BFIH will remain as a subsidiary of the Company and the Company will continue to consolidate the financial results of the BFIH Group in its consolidated financial results.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are selected financial information of the BFIH Group which has been extracted from the restated financial statements of BFIH as at and for the six months ended 30 September 2020 and 2021 and the two years ended 31 March 2021 respectively:

	For the year ended 31 March			For the six months ended		
	2020	2021	% change	30 September		% change
	(in million)	(in million)		2020	2021	
				(in million)	(in million)	
Revenue	INR266,356 (HK\$27,994)	INR158,549 (HK\$16,663)	-40.5%	INR63,946 (HK\$6,721)	INR101,558 (HK\$10,674)	58.8%
Profit for the year/period	INR3,897 (HK\$410)	INR1,619 (HK\$170)	-58.5%	INR882 (HK\$93)	INR892 (HK\$94)	1.1%
				As at 31 March 2021 (in million)	As at 30 September 2021 (in million)	
Total assets				INR87,121 (HK\$9,156)	INR87,132 (HK\$9,158)	
Net assets				INR28,357 (HK\$2,980)	INR29,255 (HK\$3,075)	

### ***Financial performance for the year ended 31 March 2021***

BFIH Group's revenue for the year ended 31 March 2021 decreased comparing to that of the year ended 31 March 2020 primarily due to the impact of COVID-19 pandemic. A complete lockdown in April and May 2020 in India resulted in production interruptions and restrictions on manpower and movement of materials required for manufacturing. The sales of BFIH Group's customers to their retail customers were also adversely affected. BFIH Group recorded a decrease of 58.5% in profit for the year ended 31 March 2021 as compared to the year ended 31 March 2020 given revenue decreased whereas depreciations and amortization expenses, finance costs and employee benefits expenses remained consistent as compared to previous year.

### ***Financial position as at 31 March 2021***

As at 31 March 2021, BFIH Group recorded total assets of INR87 billion, which mainly comprised of trade receivables of INR36 billion and inventories of INR25 billion. Total liabilities of the Group amounted to INR59 billion, which primarily included trade payables of INR52 billion. With the profit recorded for the year ended 31 March 2021 of INR1,619 million, BFIH Group's total equity recorded a slight increase to INR28,357 million as at 31 March 2021.

***Financial performance for the six months ended 30 September 2021***

BFIH Group's revenue and profit increased during the six months ended 30 September 2021 due to the resumption of production and operation from June 2020. In the second quarter of 2020, there was complete lockdown in India for 2 months which no major sales were recorded during the relevant period. On the other hand, despite the second wave of the COVID-19 pandemic in the second quarter of 2021, no nationwide lockdown was imposed in 2021. As a result, COVID-19 related disruptions in 2021 affecting BFIH Group were not as severe and apparent as in 2020.

***Financial position as at 30 September 2021***

As at 30 September 2021, BFIH Group recorded total assets of INR87 billion, which mainly comprised of trade receivables of INR33 billion, cash and cash equivalents of INR20 billion and inventories of INR18 billion. Total liabilities of BFIH Group amounted to INR58 billion, which primarily include trade payables of INR52 billion. BFIH Group's total equity recorded a slight increase from INR28,357 million as at 31 March 2021 to INR29,255 million as at 30 September 2021 due to the net profit of INR892 million recorded for the 6 months ended 30 September 2021.

**3. Reasons for and benefits of the Proposed Spin-off**

The Board considers that the Proposed Spin-off will be beneficial to both the Group and BFIH Group for the following reasons:

***(a) Unlocking the value of the BFIH Group***

The Proposed Spin-off will unlock the value of BFIH Group for the Shareholders by better identifying and establishing the fair value of BFIH Group's business and thereby crystallising the value of such business. It is anticipated that such value will represent a substantial enhancement of the Group's existing value within the confines of the Company's listing, which will, in turn, increase the value of the Company to the benefit of all of the Shareholders.

***(b) Separate identity and fund-raising platform***

The Proposed Spin-off will enable BFIH Group to establish its own identity as a separately listed group with a separate fund-raising platform and have direct and independent access to both equity and debt capital markets to finance its existing operations and future expansion, thereby improving its capital structure. The Proposed Spin-off will also enable BFIH Group to build on its competence and goodwill and reputation further and be in a better position to negotiate and generate and develop more customers and business for BFIH Group.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

***(c) Business transparency***

The Proposed Spin-off will further increase the operational, financial and governance transparency of each of the businesses of BFIH Group and the Remaining Group, thereby allowing equity investors to appraise and assess the operating and financial performance and potential of the two groups as separate corporate groups. It also allows financial institutions, rating agencies and investors to appraise their respective creditworthiness and actual intrinsic value.

***(d) Focus and clarity of business***

The Proposed Spin-off will enable more direct alignment of the responsibilities and accountability of the management of the BFIH Group and the Remaining Group with their respective operating and financial performance, which would allow both groups to benefit from more efficient decision-making process under separate management and corporate governance structures and responsible financial and performance measurement.

***(e) Substantial proceeds to the Company***

The Company is expected to receive substantial proceeds from the sale of its existing Equity Shares pursuant to the Proposed Spin-off and part of such proceeds will be used to pay a special cash dividend to the Shareholders (so as to allow them to directly benefit from the Proposed Spin-off) and for working capital and general corporate purposes of the Remaining Group.

***(f) Continuous benefit***

As BFIH will remain as a subsidiary of the Company following the completion of the Proposed Spin-off, Shareholders will still be able to participate in any growth and development of the BFIH Group through the Company's majority shareholding in BFIH.

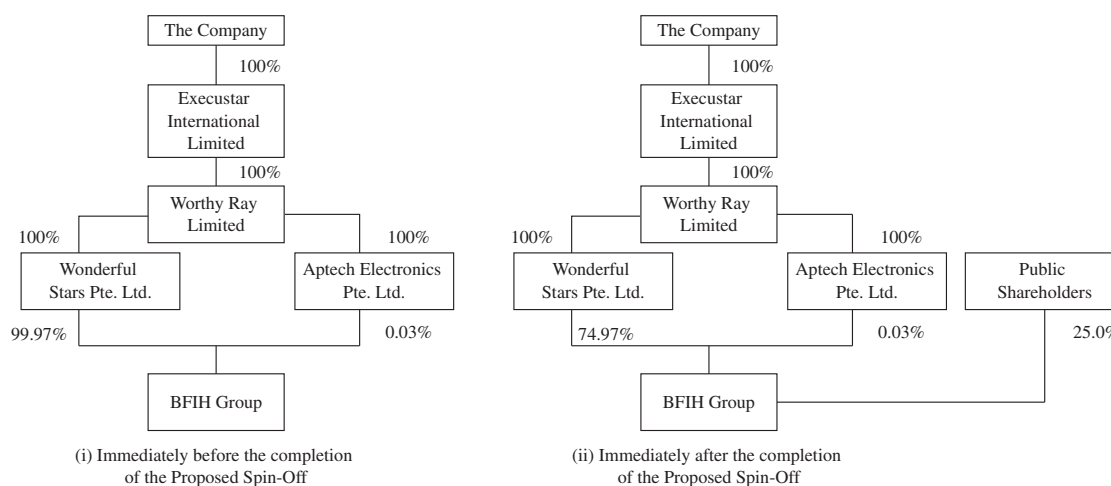
Having considered the above, we concur with the Directors' view that (i) the Proposed Spin-off will allow both the Remaining Group and the BFIH Group to release business value and ultimately benefit the Shareholders; and (ii) the Shareholders and the Group would continue to enjoy the benefits arising from the future business development and potential growth of the BFIH Group as BFIH will remain as a subsidiary of the Company.

#### **4. Principal structure of the Proposed Spin-off**

##### ***i. Structure of the Proposed Spin-off***

The Proposed Spin-off will involve (i) an offer in India for subscription by way of an initial public offering of new Equity Shares to be issued by BFIH; and (ii) an offer for sale of existing Equity Shares by the Company (through its subsidiary), with (i) and (ii) together representing in aggregate up to 25% of the enlarged issued share capital of BFIH upon completion of the Proposed Spin-off (including any exercise of the over-allotment option to be granted to the book running lead managers).

Set out below is the simplified shareholding structure of BFIH Group (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed Spin-off based on the current plan of the Proposed Spin-off:



##### ***ii. Conditions of the Proposed Spin-off***

The Proposed Spin-off will be conditional upon, among other things, (i) the approval of the Proposed Spin-off by the Shareholders (which approval has been obtained by way of written Shareholder's approval as described above); (ii) BFIH receiving in-principle approvals from BSE and NSE for the listing of the Equity Shares on BSE and NSE, respectively; (iii) the filing of BFIH's red herring prospectus and prospectus with the Registrar of Companies, Tamil Nadu, India; and (iv) the entering into an underwriting agreement by BFIH, Wonderful Stars Pte. Ltd. and the underwriters of the initial public offering of the Equity Shares and such underwriting agreement becoming unconditional in accordance with its terms.

***iii. Illustrative proceeds to be raised***

On the assumption that the proposed offering size represents 25% of the enlarged equity share capital of BFIH, it is currently expected that the minimum gross proceeds to be raised under the Proposed Spin-off will be approximately INR45.02 billion (approximately HK\$4.7 billion). It should be noted that the actual amount of proceeds to be raised cannot be determined at this stage as the actual number and final offer price of the new Equity Shares to be issued by BFIH in respect of the initial public offering and the sale of existing Equity Shares by the Company, representing in aggregate up to 25% of the enlarged issued share capital of BFIH, will be determined at a later stage subject to a number of factors.

Based on the discussions between the management of BFIH and the Indian bankers, the number and final offer price of the new Equity Shares to be issued by BFIH in respect of the initial public offering and the sale of existing Equity Shares by the Company will be determined taking into account (i) the operating results and financial performance of the BFIH Group; (ii) the business prospects and the expected performance of the BFIH Group for the year ending 31 March 2023; (iii) the capital needs of the BFIH Group and proposed use of proceeds; (iv) the then responses to price consultation with potential subscribers in the book-building process of the Proposed Spin-off; (v) the prevailing market sentiment at the time of the Proposed Spin-off; and (vi) reference to be drawn from other comparable companies in the same industry listed in India. Investors should be aware that the amount of gross proceeds is for illustrative purpose only and the above assumptions may be different at the time of the Proposed Spin-off, therefore, the actual amount of gross proceeds raised may be different from the illustrative gross proceeds raised.

***iv. Intended use of proceeds (for illustration only)***

The actual proceeds to be received by BFIH and the Company from the proposed offering of new Equity Shares and the sales of existing Equity Shares pursuant to the Proposed Spin-off cannot be determined at this time.

BFIH currently intends to use the net proceeds which it will receive from the issue of new Equity Shares pursuant to the Proposed Spin-off for investment in new technology and equipment so as to expand the BFIH Group's business and increase its competence and competitiveness and market share in India and for its working capital and general corporate purposes.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company currently intends to use the net proceeds which it will receive from the sale of existing Equity Shares pursuant to the Proposed Spin-off as follows:

- (i) not less than 40% of the net proceeds will be used to pay a special cash dividend to the Shareholders. Assuming the Proposed Spin-off proceeds and is completed in 2022, the Board expects to declare, and the Company expects to pay, the special cash dividend to the Shareholders as soon as practicable following the completion of the Proposed Spin-off; and
- (ii) the balance of the net proceeds will be used to finance the Company's working capital requirements and maintain a healthy capital structure and adequate cash for its continuing operations, and to mitigate the exposures of unforeseen market risks, and for the Company's capital commitments and other investments for future business growth and development when opportunities arise. The Company currently expects to use any cash amounts for capital commitments and other investments as referred to above within 36 months of the completion of the Proposed Spin-off.

Further announcements will be made by the Company when the final size of the proposed offering of Equity Shares and the expected proceeds to be raised from the Proposed Spin-off have been determined.

Set out below is the breakdown of the intended use of proceeds by the Group (excluding BFIH Group):

	<b>% of total net proceeds to be utilised</b>
<b><i>The Group (excluding BFIH Group)</i></b>	
Special cash dividend to the Shareholders	20.0% (Not less than 20.0%)
Working capital and general corporate purposes	30.0%

According to the Directors, the performance of the Group has been volatile in the last few years and outbreak of COVID-19 pandemic together with the U.S. restrictions and component shortages have led to a lot of uncertainties for the coming periods of time and the Group requires time to recover and to maintain a healthy capital structure. In view of such, the Company had not paid any dividend to the Shareholders since 2017.

To give due regard to the interests of the Shareholders by allowing them to directly benefit from the Proposed Spin-off (and taking into account that the Company would not be able to provide the Shareholders with an assured entitlement to Equity Shares pursuant to the Proposed Spin-off due to the legal restrictions and practical difficulties as further described in section headed "5. Waiver of Assured Entitlement to the Equity Shares" below) and subject to the Proposed Spin-off being completed, the Company proposes to pay a special cash dividend to the Shareholders

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of an aggregate amount which will not be less than 40% of the net proceeds to be received by the Company from the sale of existing Equity Shares pursuant to the Proposed Spin-off (which is equal to 20% of the total net proceeds of the Proposed Spin-off).

Details of the special cash dividend, including the amount and timing of payment, have not been finalised and will be announced by the Company in due course.

The Board considers that, and we concur despite the Proposed Spin-off would not offer Assured Entitlement to the Shareholders, the interests of the Shareholders by allowing them to directly benefit from the Proposed Spin-off by way of special dividend and subject to the Proposed Spin-off being completed of not less than 40% of the net proceeds to be received by the Company from the sale of existing Equity Shares pursuant to the Proposed Spin-off (which is equal to 20% of the total net proceeds of the Proposed Spin-off) would be in the interest of the Shareholders. Furthermore, as subsidiaries of BFIH Group and BFIH will continue to be subsidiaries of the Group, the future development of BFIH Group despite diluted by the Proposed Spin-off will continue to be enjoyed by the Shareholders via their equity holdings in the Group.

### *v. Comparable Companies*

In assessing the valuation of the deemed disposal as a result of the Proposed Spin-off, we have performed an analysis based on comparable companies of BFIH Group with details set out below.

As mentioned in the section headed “Background and financial information of BFIH Group” above, the BFIH Group is principally engaged in the provision of electronics manufacturing services for OEMs of mobile phone handsets in India.

Based on (i) the estimated minimum market capitalisation of BFIH Group of INR180.12 billion (approximately HK\$18.9 billion) as mentioned in the “Letter from the Board” of this circular (“**Estimated Market Cap**”) with reference to the expected minimum gross proceeds of approximately INR45.02 billion (approximately HK\$4.7 billion) from the Proposed Spin-off, and (ii) the profit (after tax and extraordinary items) attributable to the equity owner of BFIH Group for the year ended 31 March 2021 of approximately INR1,619 million, the implied price-to-earnings (“**P/E**”) ratio of BFIH Group will be approximately 111 times.

In order to provide the Shareholders with a general reference regarding the valuation of companies engaging in a business similar to that of BFIH Group, we have conducted a search on Bloomberg on a best effort basis, which we consider to be exhaustive, for companies (i) listed on the Hong Kong Stock Exchange; and (ii) listed on BSE and NSE. which are the two main stock exchanges in India (the “**Indian Stock Exchanges**”) which engage in similar industry as BFIH Group (i.e. with over 50% of its total revenue generated from manufacturing of telecommunication equipment) and with market capitalisation of over US\$1,000

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

million (the “**Comparable Companies**”). As BFIH Group is profit generating and the manufacturing of telecommunication equipment operation of BFIH Group is relatively labour intensive rather than capital intensive, in which P/E ratio which reflects BFIH Group’s earnings performance would be a more appropriate reference for assessing the valuation of BFIH Group. The following table sets out the comparison of P/E ratios of the Comparable Companies and BFIH Group:

Stock code	Company Name	Principal Activities	Listed on	Market Capitalisation (US\$'million) (as at Latest Practicable Date)	P/E Ratio (as at the latest financial year end date)
ITI	ITI Limited	Manufacturing, trading and servicing of telecommunication equipment.	NSE	1,362.84	1,141.59
SOTL	Sterlite Technologies Limited	Designing, building and managing telecommunication products.	NSE	1,494.50	27.71
2038	The Company	Vertically integrated manufacturing services for handset industry	Hong Kong Stock Exchange	1,211.77	N/A
285	BYD Electronic (International) Company Limited	Researching, developing and manufacturing handset components and modules.	Hong Kong Stock Exchange	7,684.01	14.31
		Including ITI Limited	Minimum Maximum Average		14.31 1,141.59 394.54
		Excluding ITI Limited	Minimum Maximum Average		14.31 27.71 21.01
N/A	BFIH Group	Provision of electronics manufacturing services for OEMs of mobile phone handsets in India	N/A		111*

*Notes:*

- The principal activities of the Comparable Companies are sourced from Bloomberg.
- P/E ratios of the Comparable Companies are calculated from data extracted from Bloomberg.

\* Calculation is based on the Estimated Market Cap and the profit after tax of BFIH for the year ended 31 March 2021.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the table above, we have identified four Comparable Companies based on our selection criteria as mentioned above (we consider that ITI Limited is an extreme outlier compared to other comparable companies as its P/E ratio exceeds 1,000 times and therefore is excluded from the P/E ratio analysis), which, in our view, is an appropriate reference for Shareholders regarding the valuation of companies listed on the Hong Kong Stock Exchange and Indian Stock Exchanges engaging in similar line of business as BFIH Group. The estimated implied P/E ratio of the BFIH Group upon the Proposed Spin-off is within the range of those of the Comparable Companies, while the P/E ratio of BFIH is higher than those of the Comparable Companies if ITI Limited is excluded.

Shareholders should note that the calculation of the implied P/E ratio of BFIH and the comparison above are for illustrative purposes only. The actual amount of gross proceeds to be raised from the Proposed Spin-off and the actual P/E ratio of the BFIH Group adopted for price determination will be subject to the market conditions in India at the time of the booking building period prior to the listing of BFIH Group, and the financial performance of BFIH Group before its listing.

The above analysis is for illustrative purposes only. Investors and Shareholders should be aware that the Estimated Market Cap is the best estimate made by the Board as at the Latest Practicable Date, which may or may not materialise. The actual market capitalisation of BFIH Group may be different at the time of launching the Proposed Spin-off upon fulfilment of all the conditions and the requirements on pricing of the Indian Stock Exchanges, depending on the then market conditions and responses from investors. Therefore, the actual amount of market capitalisation of BFIH Group may be different or even lower than the Estimated Market Cap as illustrated above.

### **5. Financial effects of the Proposed Spin-off on the Group**

Set out below are the possible effects of the Proposed Spin-off on the Group and the analysis of the financial effects of the Proposed Spin-off as illustrated below, which is based on the current structure of the Proposed Spin-off, assuming that new Equity Shares to be issued by BFIH under the Proposed Spin-off together with the sales of existing Equity Shares by the Company in aggregate will amount to 25% of the enlarged issued share capital of BFIH.

#### ***(i) Effect on net asset value***

The BFIH Group will continue to be accounted for as subsidiaries of the Company following the completion of the Proposed Spin-off and the financial position of the BFIH Group will continue to be consolidated into the accounts of the Group.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Proposed Spin-off will increase the number of shares of BFIH and will raise corresponding proceeds from the issuance of shares of BFIH. The net proceeds from the new Equity Shares to be issued by BFIH under the Proposed Spin-off together with the sale of existing Equity Shares by the Company (through its subsidiary, Wonderful Stars Pte. Ltd.) will increase the cash recorded in the consolidated statement of financial position of the Group and the total assets will increase accordingly. Apart from certain professional fees, commissions and other necessary fees/charges (if any), in relation to the Proposed Spin-off, it is expected that there would be no other material expenses or significant increase in liabilities of the Group as a result of the Proposed Spin-off.

Therefore, the net asset value of the Group would have been enhanced as a result of the Proposed Spin-off while offset by the proposed payment of special dividend to be paid after completion of the Proposed Spin-off and relevant professional fees, commissions and other necessary fees/charges (if any) incurred in relation to the Proposed Spin-off. The estimated change in the Group's net assets as mentioned above is based on, among others, the current terms of the Proposed Spin-off. Accordingly, the actual change in the Group's net assets, of which the calculation will be based on the final structure of the Proposed Spin-off and the then financial position of the BFIH Group immediately upon the completion of the Proposed Spin-off, may be different from the above estimation.

### *(ii) Effect on earnings*

The BFIH Group will continue to be accounted for as subsidiaries of the Company following the completion of the Proposed Spin-off and the financial results of the BFIH Group will continue to be consolidated into the accounts of the Group. The effect of the Proposed Spin-off on the future earnings of the Group will depend on, among other things, the future business operations and performance of the BFIH Group as well as the return generated from the net proceeds raised from the Proposed Spin-off after payment of the proposed special cash dividend by the Company.

The Proposed Spin-off will be regarded as a transaction with non-controlling interest and the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in BFIH. It is expected that there would be no gain or loss on the deemed disposal and the Proposed Spin-off to be recognised in the Company's consolidated statement of profit or loss and other comprehensive income upon completion of the Proposed Spin-off in accordance with International Financial Reporting Standards 10. The difference between the amount by which the non-controlling interest is adjusted and the net proceeds raised from the Proposed Spin-off will be recorded in equity attributed to the owner of the Company (i.e. other reserve). In addition, as the proportion of the Company's shareholding in BFIH will be diluted immediately upon completion of the Proposed Spin-off, it is expected that the earnings attributable to the owner of the Company contributed by BFIH will decrease while the earnings attributable to non-controlling interests of the Company will increase.

*(iii) Effect on working capital*

In view of the cash proceeds from the new Equity Shares to be issued by BFIH and the sale of existing Equity Shares by the Company under the Proposed Spin-off to be received by BFIH and the Company respectively, in which BFIH will remain as a subsidiary of the Company, it is expected that the working capital position of the Group would improve as a result of the Proposed Spin-off.

**6. Dilution effect of the Proposed Spin-off on the Group**

It is expected that the Proposed Spin-off will involve (i) an offer for subscription by way of an initial public offering of new Equity Shares to be issued by BFIH; and (ii) an offer for sale of existing Equity Shares by the Company, with (i) and (ii) together representing in aggregate up to approximately 25% of the enlarged issued share capital of BFIH immediately upon completion of the Proposed Spin-off (including any exercise of the over-allotment option to be granted to the book running lead managers), following which the ownership of the Company in BFIH will be diluted from 100% as at the Latest Practicable Date to not less than 75% immediately after the listing of the shares of BFIH on the Indian Stock Exchanges.

In our opinion, such dilution, albeit not immaterial, is acceptable to the Shareholders taking into consideration the special dividend to be declared out of the proceeds from the sale of existing Equity Shares by the Company and various benefits to be derived from the Proposed Spin-off as discussed above.

**7. Waiver in respect of assured entitlement**

In accordance with the requirements of paragraph 3(f) of Practice Note 15, the Company is required to give due regard to the interests of the existing Shareholders by providing them with an assured entitlement to the new Equity Shares, if the Proposed Spin-off proceeds. However, the Directors consider that it is not practicable to provide assured entitlement of the new Equity Shares as further explained below and that the requirement of paragraph 3(f) of Practice Note 15 of the Listing Rules cannot be met practically.

In determining the venue for the proposed listing of BFIH, the Board has made due and careful consideration, taking into account, among other things (i) the nature of the BFIH Group's business; (ii) the jurisdiction in which BFIH was established and had been operating its business; and (iii) the characteristics of different capital markets (including the relatively higher earning multiplies that the Indian capital market offers), and concluded that it is more suitable for seeking a listing of BFIH on BSE and NSE which are the two main stock exchanges in India.

BFIH's Indian legal adviser (the "**Indian Legal Adviser**") has advised that the Proposed Spin-off would constitute an "initial public offer" under the SEBI ICDR Regulations and accordingly, Equity Shares may be offered pursuant to the Proposed Spin-off by way of a new issuance of Equity Shares by BFIH or a sale of existing Equity Shares by the Company only to members of the public.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Indian Legal Adviser has further advised that under the applicable Indian regulations, the Shareholders cannot be allotted or transferred Equity Shares pursuant to the Proposed Spin-off for no consideration and therefore (i.e. there cannot be an in specie distribution of the Equity Shares to the Shareholders for no consideration) each Shareholder would be required to make a valid bid for the Equity Shares pursuant to the Proposed Spin-off at or above the final offer price determined upon the completion of the book building process. In addition, the Indian Legal Adviser has advised that under the FEMA Rules, the subscription or purchase of Equity Shares by persons who are resident outside India (and specifically in Mainland China and Hong Kong) will be subject to the prior approval of the Government of India as further detailed below. Accordingly, the Assured Entitlement to the Shareholders cannot be provided by way of a distribution in specie of the Equity Shares.

With respect to the preferred application in the issuance and offering of Equity Shares, the Indian Legal Adviser has advised that pursuant to the SEBI ICDR Regulations, an issuer company may reserve a portion of up to 10% of its securities under an initial public offering for subscription by shareholders (other than promoters and the promoter group) of the listed subsidiaries or listed promoter companies (the **“Qualifying Shareholders”** and the shares under such reservation, the **“Reserved Shares”**) on a competitive basis.

Although the Reserved Shares may be available to the Qualifying Shareholders of the Company, given the legal restrictions under the applicable laws and regulations of India and the practical difficulties, the Assured Entitlement to the Shareholders by way of preferred application in any offering of existing or new Equity Shares in BFIH will not be feasible under the applicable Indian regulations for approvals to be obtained by Shareholders who are located in Mainland China and Hong Kong. For details, please refer to the section headed **“Waiver of Assured Entitlement to the Equity Shares”** in the **“Letter from the Board”** of this circular.

In view of the legal restrictions under the applicable Indian regulations in providing the Assured Entitlement to the Shareholders referred to above, the Company will not provide the Assured Entitlement to the Shareholders. The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of paragraph 3(f) of Practice Note 15.

The Board is of the view that even if the Assured Entitlement is not provided to the Shareholders, the Shareholders can still be directly benefited from the Proposed Spin-off by way of the special cash dividend which is proposed to be paid by the Company upon the completion of the Proposed Spin-off out of the proceeds from the sales of existing Equity Shares by the Company.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into consideration the legal restrictions under the applicable Indian regulations in providing the Assured Entitlement to the Shareholders referred to above and a special cash dividend will be paid to the Shareholders upon the completion of the Proposed Spin-off, we concur with the view of the Board that, the Shareholders will still be able to benefit from the Proposed Spin-off despite the Assured Entitlement is not provided.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Spin-off (taking into consideration the Estimated Market Cap as at the Latest Practicable Date) are fair and reasonable; and (ii) the Proposed Spin-off (taking into consideration the Estimated Market Cap as at the Latest Practicable Date) is in the interests of the Company and the Shareholders as a whole. Accordingly, if a general meeting of the Company would be held, we would recommend the Independent Board Committee to advise the Shareholders to vote in favour of the relevant resolution(s) which would have been proposed at the general meeting to approve the Proposed Spin-off and the transactions contemplated thereunder and we would recommend the Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Halcyon Capital Limited**  
**Terry Chu**  
*Managing Director*

*Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 20 years of experience in corporate finance industry.*

## 1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three financial years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2021 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.fihmb.com>):

- (a) The annual report of the Company for the year ended 31 December 2018 published on 9 April 2019 (pages 64 to 148):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0409/ltm20190409423.pdf>

- (b) The annual report of the Company for the year ended 31 December 2019 published on 16 April 2020 (pages 79 to 163):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041600335.pdf>

- (c) The annual report of the Company for the year ended 31 December 2020 published on 20 April 2021 (pages 92 to 170):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0420/2021042000953.pdf>

- (d) The interim report of the Company for the six months ended 30 June 2021 published on 15 September 2021 (pages 4 to 30):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0915/2021091500432.pdf>

## 2. INDEBTEDNESS

As at the close of business on 31 October 2021, being the latest practicable date for the purpose of preparing indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness of approximately US\$816,619,000:

	<b>As at 31 October 2021 US\$'000</b>
Bank loans — unsecured and unguaranteed	674,310
Bank loans — secured by bank balances of fellow subsidiaries and unguaranteed	115,900
Lease liabilities — unsecured and unguaranteed	20,667
Lease liabilities — secured by rental deposits and unguaranteed	<u>5,742</u>
<b>Total indebtedness</b>	<b><u><u>816,619</u></u></b>

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Group did not have, as at 31 October 2021, any mortgage, charges, debentures, debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding borrowings or indebtedness in the nature of borrowings including term loans, bank overdrafts, liabilities under acceptance (other than normal trade bills), acceptance credits, and lease commitments or other similar indebtedness, or any guarantees or contingent liabilities.

### **3. WORKING CAPITAL**

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the effect of the Proposed Spin-off and the financial resources available to the Group including internally generated funds, available facilities and other financial resources, the Group will have sufficient working capital for its requirements, that is for at least 12 months from the date of publication of this circular.

The Company has obtained the working capital sufficiency confirmation letter from its auditors as required under Rule 14.66(12) of the Listing Rules.

### **4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

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

As the Group mainly deploys its manufacturing facilities in China, the OEM industry in China has a direct impact on the Group’s business. Since the reform and opening up, China has attracted significant foreign investments due to factors such as low labour costs, preferential

land use and favourable investment conditions. Chinese OEMs have emerged as the low-end industrial chain, taking over the demands and achieving impressive results. “Made in China” was once meant to be cheap manufacturing, but a significant decline in gross profit margin, an increase in raw materials and labour costs of OEM companies, the intensification of industry competition, the enhancement of the market power of alternatives and the enhancement of the bargaining power of the customers and consumers have made the sustainable development of OEM companies a challenging task. In fact, going after the cheap manufacturing cost in China is no longer a favourable option, the National Bureau of Statistics (“NBS”) released data reporting the average wage of urban workers continued to increase in China. Although 2020 wages grew at a slightly slower rate, the wages still see an upward trend, as the increasingly skilled workforce in the high-value industries pulled up the wages. According to the data, the average annual income of employees in urban non-private units stood at RMB97,379 in 2020, which represents a real growth of 5.2% year-over-year, while for employees in urban private units was RMB57,727 in 2020, up 5.3%. Besides, China has announced recently that it will allow couples to have up to three children, after census data showed a decline in birth rates. Xinhua News, the China news agency, said following a politburo meeting chaired by President Xi Jinping, “the policy will come with supportive measures, which will be conducive to improving our country’s population structure, fulfilling the country’s strategy of actively coping with an ageing population”. This verifies indirectly that wages rise continually under the sluggish fertility rate and labour supply shortage. That is one of the reasons that many foreign-invested enterprises have chosen to move to the emerging countries such as India or Vietnam where the Group has already had its footprints on. In the “Asia Segment” section in the interim report of the Company published on 15 September 2021 for the six months ended 30 June 2021 (the “**IR2021 Report**”), there are detailed explanations why the Group made the strategic decision to expand in India and enhance its competence. It is worthy to note that although there is an increase in capacity in China to reflect the Group’s customer demand, it is not contradicted with the Group’s overall strategy to mitigate the risk of reliance on a single region.

Regarding the outlook of the Group’s business and performance, the global general economy, development of COVID-19 (the novel coronavirus) and vaccination roll-out rate, handset market, global supply chain, component shortage, geo-economic risks, government incentives and support, consumer behaviours and propensity to consume, product mix, technological change and OEM/ODM industry and competition landscape, need to be considered. Since 2017, global smartphone shipments have already declined for four consecutive years, with –3.4% Compound Annual Growth Rate (“**CAGR**”) from 2016 to 2020, especially with the widespread of COVID-19 pandemic which offsets the anticipated growth from 5G adoption and causes both supply chain disruptions and demand slump in 2020. However, according to International Data Corporation (“**IDC**”), a research company, the smartphone market will see an impressive rebound in 2021. Following the recovery in consumer demand and the ramp-up of applying 5G, smartphone shipments are forecasted to reach 1.38 billion units in 2021, an increase of 7.7% over 2020. This trend is expected to continue into 2022, when year-over-year growth will be 3.8% with shipments totaling 1.43 billion. Though the semiconductor shortage remains a concern, the impact on smartphones has been less than in other consumer electronics like automotive, personal computers, etc. Looking ahead to the later years, IDC expects low single-digit growth to continue through 2025 with a five-year CAGR of 3.7%. Especially 5G smartphones, there is a strong supply-side push

toward 5G devices, driving the price to drop. It is a motivation to urge consumers to change their phones due to such affordable prices. IDC also expects application service providers for 5G Android devices to drop 12% year-over-year in 2021 and then below US\$400 in 2022. Regarding OEM/ODM industry situations, due to the saturated smartphone market, restricted demand caused by the severe COVID-19 pandemic, restrictions imposed on one of the major mobile phone brand companies, price increase of components and labour cost competition among Chinese vendors will become fiercer. The oversupply in Chinese OEMs may impact future demands of the products and services to be provided by the Group. Moreover, because a major Chinese giant has been forced to withdraw from the market resulting from the unrelieved sanction imposed by the government of the U.S., the OEMs who used to provide services to this brand company are fighting head to head to other OEMs trying to maximise the use of already surplus manufacturing capacity. At the same time, the Group's customers are 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. In order to get adequate allocations from the customers and compete against players in the market, the Group has to accept the low gross margins of system assembly business with major customers. Similarly, as mentioned above, the profit margin of the casing business is also under extreme pressure. As explained in the "Financial Performance" section in the IR2021 Report, due to excessive investments in mechanical capacities in the past, the Group's peers faced similar aforementioned risks and have chosen to diversify their product mix.

According to the report published by World Bank on 8 June 2021, the global economy is set to uplift by 5.6% in 2021 after the greatest economic depression caused by COVID-19. The gradual recovery of global economic driven by increasing vaccination rates, allowing businesses to gradually restore operation and return to pre-pandemic level, while many countries were being hampered by slow vaccination deployment and the sustained outbreak of COVID-19 pandemic. Due to continued spike in COVID-19 cases and vaccine supply constraint, Asia Gross Domestic Product ("**GDP**") growth (excluding China) has been adjusted to 4% from 4.4% forecast in March, according to the recent data released by World Bank on 15 July 2021. COVID-19 continues to have a profound impact on the local smartphone production volume and sales in Asia regions. However, as many nations continued to fight against the pandemic, vaccination rate surged subsequently, which ignites a strong economic resurgence in some nations, U.S. and China particularly. With the speedy rollout of coronavirus vaccines in the United States, more than a third of the total U.S. population is now fully vaccinated against COVID-19, according to data collected by the U.S. Centers for Disease Control and Prevention on 7 June 2021. The robust revival of U.S. economy was bolstered by the rapid rollout of vaccines and substantial fiscal stimulus package of US\$1.9 trillion, GDP in the U.S. is expected to experience a strong upswing of 6.8% in 2021 after profound pandemic-induced economic downturn, according to data collected by World Bank on 8 June 2021. In contrast, China's economy is forecasted to record a robust momentum growth of 8.5%, according to World Bank on 8 June 2021. China has estimated that 80% out of its 1.4 billion population will get vaccinated in 2021 according to the Chinese National Health Commission on 3 June 2021. The strong economic upturn of U.S. and China will notably contribute to the growth in global economic and propel consumer spending as business resumed operations and people gradually returned to normal life.

The prolonged supply crunch has been a hindrance on the growth of electronics marketplace, trickling down across the supply chain from the consumer electronic segment including smartphones, personal computers and even home appliances to the automotive segment, leading to price surges in every segment. In addition, escalating prices for copper and other manufacturing metals have spurred the bump in pricing for electromechanical devices and passive components. Some common electronic components such as Integrated Circuits (“ICs”), filters, Liquid-Crystal Displays (“LCDs”), sensors, etc. continue to be subject to compressed supplies, with rising prices and extended order lead times persist into 2022. Furthermore, a report released by Techspot on 24 May 2021 revealed that more than 30 global chip manufacturers have announced a 10% to 30% price bump in their products from the beginning of second quarter of 2021, and those chipmakers are projected to continue raising quotes in the third quarter of 2021 due to tightened manufacturing capacity. As price of electronics components continue to climb, downstream markets such as personal computers and smartphones have witnessed higher costs, which will inevitably be passed on to customers. According to a recent report published by the Wall Street Journal on 19 July 2021, smartphone saw a spike of 5% in the average wholesale price from April to June 2021. Moreover, one of the Group’s major customers has raised prices on specific smartphone models to reflect higher component costs driven by supply shortages and increasing raw material costs. However, the crunch in chipset supply is expected to “see a material improvement by the end of 2021 due to planned capacity builds and multi-sourcing initiatives” said Cristiano Amon, President and Chief Executive Officer-Elect during Qualcomm quarterly earnings call on 28 April 2021. While several industries have taken proactive steps to mitigate ongoing supply strain, and global semiconductors manufactures have actively invested in new foundries and factories expansion to ramp up production capacities, however, the dearth of supply will not be alleviated in the short term. “It could take years to address shortfalls in foundry capacity, substrates, and components”, said Intel’s CEO on 31 May 2021. According to the analysis published by IDC, mobile phone brand companies have already moved more aggressively with their 5G portfolios both in terms of production and price points. IDC forecasts the total number of 5G mobile phones will grow from approximately 587 million in 2021 to 1,123 million in 2025 at a CAGR of 17.64%. On the other hand, according to a report of “Five Ways to a Better 5G” published by Ericsson in May 2021, highlighted consumer intention to upgrade to 5G smartphone escalating during COVID-19 pandemic, the statistics indicated that at least 300 million smartphone users are set to upgrade to 5G phones by 2021. The report also pointed out that 22% of global 5G smartphone owners are still on a 4G service, while other 4% of respondents claimed they use a 5G subscription on a 4G smartphone. As the ongoing COVID-19 outbreak, consumers moved their daily activities indoors such as work from home and remote learning, 5G indoor coverage became more important than other 5G feature in driving overall consumer satisfaction. However, as opposed to 5G network, consumers inclined to use 4G networks as 5G networks have relatively poor indoor coverage. It is certain that customer demand for 5G smartphones will accelerate once the quality of indoor coverage is improved. According to IDC statistics, among the total global 5G shipments shipped since the first 5G model released in 2019 to the first quarter of 2021, 62% of 5G mobile phones were shipped into China. As of June 2021, data from China’s three major carriers unveiled that the number of 5G subscribers in China reached 493 million, with the highest 5G penetration rate at 30.46% and the largest number of 5G users in the world. Nevertheless, according to the China Academy of Information and Communications Technology (“CAICT”) data released in July 2021, the cumulative number of 5G phone shipments was 304 million, which means that nearly

189 million users who have subscribed 5G plans still use 4G handsets. According to Ericsson's research in May 2021, 8% of Chinese respondents have 5G plans but use 4G phones, and the other 33% use a 5G phone but have 4G subscriptions, suggesting that most consumers have a poor experience with 5G due to inadequate 5G base stations in China. Yet, 600,000 new 5G base stations are expected to be built in China by 2021, reaching a cumulative total of 1.31 million, which is projected to largely improve 5G coverage and further stimulate demand for 5G handsets. Based on a research report by Goldman Sachs released on 7 June 2021, in spite of the slowdown in China's smartphone shipments in April 2021, the shipments of 5G smartphones are expected to generate momentum in the second half of 2021 given the continuing release of more cost-effective 5G mobile phones and flagship models with the latest features. In addition, from the IDC perspective, the mid-tier market will become a crucial battle ground to win over consumers looking to grab a 5G device as the specifications and price point cross over current 4G. Overall, a study conducted by Qualcomm on 2 November 2020 unveiled that the full economic effects of 5G are likely to be achieved by 2035 on a global scale, bolstering a breadth of industries and potentially driving up to US\$3.8 trillion in economic output and supporting 22.8 million jobs.

Echoing the IDC's report, the leading chipmaker — Qualcomm's financial results, showed its chips sales still achieved double-digit growth, propelled by 57% and 114% year-over-year growth in handset chips and Radio Frequency (“**RF**”) front-end chips in the second quarter of 2021 respectively. In spite of the supply constraints, the sales still recorded a strong growth rate, especially RF front-end chips which are an essential part of 5G, seeing 5G devices demands went up as new handsets released and consumer purchasing power increased. According to Consumer News and Business Channel (“**CNBC**”), Qualcomm CEO Cristiano Amon indicated that the company has prioritised the growth of the company's RF front-end business, which gives the company an important component to sell to handset makers who may want to develop their own 5G modems. Besides, according to Qualcomm's relevant earnings call, the management team mentioned a supply shortage across a broad set of business continually as well as the reduction in orders from the large handset OEM restricted by the sanctions, however, they took it as an opportunity to optimise their product mix and redirect the capacity to the strong margin profiles. Its non-GAAP (Generally Accepted Accounting Principles) net income in the second quarter of 2021 grew up by 124% year-over-year. Qualcomm predicts the supply environment would be more favourable at the end of 2021 and even toward 2022. The company made the same handset shipments forecast, expecting high single-digit growth in phones shipped and 450 million to 550 million 5G handsets in 2021.

In addition to supply constraints, the impact of COVID-19, 5G development, rapid technological advancements, and shifts in customer preference and consumption patterns in the mobile phone industry, recent geo-economic risks will also have a significant influence on this market. Geo-economic tensions have escalated over the last couple of years since U.S. ex-President Trump introduced tariffs on Chinese goods and listed several Chinese companies into the blacklist to block their resources and supports. Since the elected U.S. President Joe Biden took office, the attitude toward China has changed but remained tough. On 21 May 2021, the U.S. Commerce Department officially announced that the government will keep Chinese telecommunications giant Huawei on a trade blacklist. “Huawei remains on the entities list, and there's no reason to think that they'll be coming off”, Commerce Secretary Gina Raimondo said. All the restrictions proposed and carried out by Biden administration indicates

the tense relationship between two giant entities, U.S. and China would not relieve soon. However, the Biden's attitude and policies are different partly with ex-President Trump. Biden tends to announce sanctions against Chinese companies based on sufficient evidence, while Trump government imposed strict restrictions even if they could not find solid evidence that the companies undermine the security or democratic values of the United States. Although Huawei has not been removed from the entity list, it kept putting efforts on developing new handsets and operating systems. On 3 June 2021, Huawei launched its Harmony operating system for smartphone, meaning the company will no longer rely on Android platform. On the other side, in the product event, the CEO of Huawei's Consumer Business Group only released a teaser for the flagship P50 phone and delayed its spring launch "for reasons that everyone is aware of", he said. It obviously indicates the customer still suffered from certain obstructions on the way to develop new phones. However, the company has took advantage of its software, hardware and integration abilities to expand into automotive industries for making up the decline in revenue. Recently Huawei launched cutting-edge automated driving system, vehicle sensors, automotive operating system and other related applications, attracted lots of attentions from consumers. The Group anticipates the revenue contribution from automotive would grow fast in the near future. As for the spin-off brand, Honor, it has yet to regain the substantial market shares hampered by the supply chain deals, according to an analyst report. However, the subbrand has got rid of the U.S. restriction. On 16 June 2021, Honor officially announced its Honor 50 series with Google services and powered by a Qualcomm Snapdragon 778G processor. "Consumers will be able to experience Honor smartphones and tablets equipped with GMS", the company said. The CEO also confirmed the devices, Magic 3, will debut in the third quarter of 2021 and be embedded the top-end Snapdragon 888 processor. That is a huge progress for Honor that could access the components and software system to make the way to develop new devices smoother.

Growing tensions between the U.S. and China and the COVID-19 pandemic, coupled with the resulting restrictions, have renewed and intensified calls in the U.S. and other countries for reducing dependence on China. While theses sentiment and action are not expected to lead to decoupling or a major immediate shift, the pandemic is expected to increase the speed of relocation of lower-value manufacturing. According to Anwita Basu, head of Asia country risk research at Fitch Solutions published in Bloomberg, "Many companies have already begun adopting a 'China plus one' manufacturing hub strategy since the U.S.-China trade war began in 2018, with Vietnam having been a clear beneficiary". This trend may persist due to the currently observed bipartisan support in the U.S. for a tougher approach to China, increasing the possibility of the trade war intensifying in the future. Amid further escalation of the trade war, many companies have increasingly hedged against risks of tariffs by establishing operations and markets outside of China for their overseas business. Indeed, one of the Group's main competitors has embarked on overseas expansions in India and Vietnam, and seized the opportunities to enlarge its manufacturing capacities in India in the third quarter of 2020, securing bulk orders from the Group's major customers accordingly. Another key competitor has aggressively expanded in the deployment of overseas factories, especially in Vietnam and Europe. The company has jointly established an assembly factory in Turkey with one of the Group's major Chinese customers at the beginning of 2021. The key markets for Chinese brands expansion so far are India, Southeast Asia, Europe, Middle East and Africa. On the other hand, the Group has helped these Chinese brands to expand and internationalise rapidly in overseas markets, and these customers want to further leverage on the Group to expand their

footprints in India and other emerging markets. Since 2015, given the Group's leading industry experiences in managing Indian operations and providing a wide range of services in most parts of the value chain, the Group has been expanding its local manufacturing service and component supply chain support in India to benefit from the Indian government's "Make-in-India" initiatives, which can address both the domestic Indian market and export demands. In addition, as the Group acquired a manufacturing facility in Vietnam in late 2016, various customers have undertaken the necessary steps to move their manufacturing to Vietnam during 2019 as a precaution, and the Group has continued to expand its capacity and capability there to meet its customers' needs. Through the localisation of raw materials, the Group is further reducing the cost and improving the quality and capacity of its Vietnam facility to better serve its customers in the future.

However, with the onset of the second wave of COVID-19, several regions around the globe were hit severely, especially in India and Southeast Asia, where the coronavirus cases rose rapidly, causing factories to run below capacity or even forcing temporary closures. The second COVID-19 outbreak largely derailed the supply chain in India and Vietnam, which China saw it as a great opportunity for the manufacturing supply chain return to China, according to Zhang Zhiwei, chief economist at Pinpoint Asset Management, who said on 24 May 2021. China is forecasted to benefit from the ongoing supply chain disruptions in those two countries as companies are more likely to shift their production back to China, with foreseeable export growth of 20% to 30% in China continuing into 2022, Zhang Zhiwei said. In parallel with the above market perspective, it is important to view the product perspective. From product perspective, with the popularity of innovations and technologies, the smartphone industry has become commoditised and highly homogenised with standardised specifications leading to increased market competition as the industry became more fragmented with the modular industry structure reducing entry barriers. The smartphone has matured as an application, driving innovation in design and features and appearances. IDC announced a feature prediction towards China's smartphone products in the next few years, including a larger RAM capacity, higher penetration of OLED screens, under screen fingerprint, AI, facial recognition, AR/VR/3D modeling and 5G functionalities. According to a statement on Samsung's official website, 5G devices tend to consume more battery than 4G phones because of the current limitation of 5G signal coverage. Therefore, 5G phones have to constantly search for a strong signal, switch between 4G and 5G networks and spend much time hunting for a good connection, which result in a faster battery consumption. As a consequence, battery life of 5G phone is considered one of the most common pain points for consumers. To address 5G battery life issue, many smartphone manufactures have begun to optimise phone specifications and largely improved battery to a high capacity of 5,000 mAh with upgraded fast charging feature to attract customers. With enhanced specifications and differentiating features, higher display refresh rates, larger memory capacity and faster processors speed will be on the radar. In addition, recent innovations similar to the foldable phones might grab more consumers' attention despite only a handful of brands having entered this field. The second-generation foldable devices have given an optimistic outlook to the industry with improvements shown over the first-generation models, including quality improvements, increased performance, and a slimmer footprint. Bigger screens and multicameras will also continue to be popular across all the regions. Furthermore, the average unit price of the overall smartphone is expected to reach US\$376 in 2021 and US\$326 in 2025, with a significant decrease at a CAGR of 3.5% for 2021 to 2025, according to data collected by IDC on 26 May 2021.

Apart from product features, online privacy issues including personal data leakage or improper exploitation by third parties have been a major concern for the majorities, with 57% of users expressing their concerns about privacy online, based on a survey conducted by Ericsson on 6 May 2021. With increasing privacy awareness, technological giants such as Apple and Google have taken multiple initiatives to cope with privacy concerns while protecting user data from being unwittingly collected by third parties. Apple has made a huge step forward in privacy protection by turning off IDFA, the so-called Identifier for advertisers, by default in IOS version 14.5, which was released on 26 April 2021. Under this version, advertisers will not have access to user data unless the users give them permission to track them. On top of that, Apple highlighted its upgrades to privacy protection at Worldwide Developers Conference on 7 June 2021. One major privacy upgrade that has drawn attention was the new Privacy Relay feature, an internet privacy service embedded in iCloud designed to secure that all traffic and route leaving a user's device are fully encrypted. On the other hand, Google also announced a host of privacy-focused features across its diverse products at its I/O conference on 18 May 2021 and introduced a major software update to Android 12 that offers brand-new privacy features, including a new privacy dashboard. It is no doubt that privacy and online security are of paramount importance these days as consumers increasingly shift their daily activities to online platform and spend more than 50% of their time on the smartphones during the COVID-19 pandemic, according to a study conducted by Ericsson on 6 May 2021.

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

To meet its customers' increasingly sophisticated needs, the Group has kept investing in Research and Development ("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 competences. 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 Product Development (“PD”)/Product Manufacturing (“PM”) and R&D teams that are composed of experienced talents with superior industrial design capabilities and solid experiences in mass production, which gives the Group its own capabilities of creation, and ability of continuously improving qualities, yield rate, mass production, and customised design. To keep maintaining competitive edge against industry rivals, the Group’s design centers are undergoing the optimisation practices on product development process to achieve increased agility and also to meet the tremendous pace of technological changes and customers’ needs. The design centers are proactively establishing product portfolio and use it as a marketing tool to approach potential clients; this approach can increase the product development efficiency. The product development cost can be shared by various clients; hence, the implementation for this approach can enhance the competency. To aggressively keep abreast on the latest industry trend, employees are encouraged to keep up with new mobile device industry’s technological knowledge (e.g. 5G) and to embrace new technological requirements for stepping into the Internet of Vehicle (“IoV”) and medical devices industries. Seminars and technology roadmap sharing meetings are hosted with clients and key component suppliers and targeted vendors who are defining or leading in particular technological categories to keep employees connected with innovation trend. Internally, design centers are striving to promote an atmosphere for keeping abreast of new technologies by granting rewards to encourage R&D staff for submitting patents applications and hosting inter department technology sharing sessions, and attending trade shows.

The Group’s design centers are in close proximity to worldwide leading clients and new technology zone. They are also located in those highly competitive markets in the mobile devices industry. They are able to provide services from product innovation concepts to final product productions, in whole or in part. Their full R&D function resources, global manufacturing supports, extensive experienced teams in serving worldwide clients’ requirements for large demand and complex product projects become fundamental for tightening business relationships with customers. Their proven record of serving worldwide clients demonstrates the ability and adaptability to serve not only brand customers but also leading telecommunications operators. The one stop R&D services model along with experienced program/engineering service and in-house manufacturing capability can decrease customers’ program management efforts; hence, the customers can then focus on their core in promoting their brand products. These value added services uphold the customer-centric service mindset. As a whole, the R&D team helps to deliver corporate strategies, so that it highlights promising ways to reposition the business through new platforms. The R&D team is serving as the Group’s innovation engine. Offensively, the R&D team’s role is the leading vanguard for the Group’s transformation in outreach in different fields; defensively, its full service function differentiates the Group’s R&D team from pure manufacturing service factories and/or R&D service companies. The R&D team stands in solid position to promote the Group’s manufacturing resource advantage to customers in product designs. The R&D team also contributes to the manufacturing upgrades and assist factories for the digitalised manufacturing process. All these have allowed the Group to develop a full range of

smartphones and feature phone products with innovations in industrial design, camera and audio applications to differentiate the Group's products from market competition and enable the Group to penetrate global mobile market share. The Group has fully utilised the strength of the Hon Hai Technology Group in vertical integration for product creation. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Technology Group, providing scale, solid experience and control in key components) are especially attractive for Chinese brands. The Group's ability to continuously upgrade its technologies and stay ahead of its competitors will be a big determinant in the Group being able to maintain competitive advantage and secure margins. The R&D team will continue to innovate on technologies such as industrial design, image and audio quality, user experience, Artificial Intelligence technology, etc. which will be adopted by various products that the Group will offer, including not only mobile phones, but also data modules, network products, IoT devices and automotive products. The R&D team leverages on the entire product portfolio of mobile and wearable devices to address the opportunity for consumer IoT market and differentiate the IoT products with advanced voice user interfaces and better audio and video features. With over 15 years' experience in consumer products development and over 10 years' experience in Android software development, the Group will contribute its great capabilities in software and hardware integration and optimisation to roll out disruptive products for automobiles (telematics box, in-vehicle infotainment system, smart cockpit, etc.), taking advantage of the Group's extensive knowledge of user experience and software development in mobile ecosystems to seamlessly integrate the automobile into the driver's mobile-centric lifestyle. The Group had made further investment in R&D of new technologies to ensure future business momentum and identify and address the changing demands of customers, industry trends and competitiveness. In India, the Group has been building up its R&D capability and capacity.

In addition, as mentioned in the "Investments" section in the IR2021 Report, the Group has taken necessary actions to control future impact from the change in the total fair value of the Group's investments and has always evaluated the possible alternatives to maximise the benefits (financial, operational and otherwise) from the Group's investments.

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in the near future. In 2020, the Group has carried out the rightsizing and restructuring to eliminate redundant assets and become leaner. 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 2020 corporate governance report, which forms part of the 2020 annual report of the Company as issued and published on 20 April 2021.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' Interests

As at the Latest Practicable Date, the interests and/or short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and/or debentures of the Company and/or 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 (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	The Company	Beneficial owner	20,731,661	0.2588%
	Hon Hai	Beneficial owner	8,075	0.00006%
	Chiun Mai Communication Systems, Inc. (“CMCS”) <sup>(1)</sup>	Beneficial owner	1,000	0.0007%
KUO Wen-Yi	The Company	Interest of spouse	700,000	0.0087%
	Hon Hai	Beneficial owner	1,848	0.00001%
	Hon Hai	Interest of spouse	13	0.0000001%
MENG Hsiao-Yi	The Company	Beneficial owner	1,718,938	0.0215%

*Note:*

- 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.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at the Latest Practicable Date, 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) (i) 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 (ii) 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 (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

At the Latest Practicable Date, there is no contract or arrangement subsisting in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

**(b) Substantial Shareholders' Interests**

So far as is known to any Director, as at the Latest Practicable Date, Shareholders (other than the Directors or chief executive of the Company) who had interests and/or 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:

<b>Name of Substantial Shareholder</b>	<b>Capacity/ Nature of Interest</b>	<b>Total Number of Ordinary Shares</b>	<b>Approximate Percentage of Interest in the Company</b>
Foxconn Far East	Beneficial owner	5,081,034,525	63.43%
Hon Hai <sup>(1)(2)</sup>	Interest of a controlled corporation	5,081,034,525	63.43%

*Notes:*

1. Foxconn Far East 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 for the purposes of the SFO.
2. Mr. CHIH Yu Yang, the acting chairman and an executive Director, is a director of a subsidiary and an associate of Hon Hai.

Save as disclosed above, as at the Latest Practicable Date, 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.

### 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by any member of the Group within one year without payment of compensation other than statutory compensation).

### 4. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

### 5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

### 6. MATERIAL LITIGATION

On 5 October 2007, Shenzhen Futaihong Precision Industry Co., Ltd. ("**Futaihong**"), an indirect subsidiary of the Company which is incorporated in the People's Republic of China ("**PRC**") and engaged in the manufacture of handset modules and components and the provision of assembly services, and Hong Fu Jin Precision Industry (Shen Zhen) Co., Ltd. ("**Hong Fu Jin**"), an indirect subsidiary of Hon Hai which is incorporated in the PRC, jointly commenced proceedings in the High Court of Hong Kong against BYD Company Limited and a number of its subsidiaries (collectively, the "**Defendants**"). FIH Precision Component (Beijing) Co., Ltd. ("**FIH BJ**"), an indirect subsidiary of the Company which is incorporated in the PRC, subsequently joined as the 3rd Plaintiff in the proceedings. Futaihong, Hong Fu Jin and FIH BJ are collectively referred to as the "**Plaintiffs**" below.

The proceedings consist of (a) the original action which involves a claim by the Plaintiffs against the Defendants for, *inter alia*, breach of confidence, procuring and inducing breach of contractual and fiduciary duties, conspiracy and constructive trust; and (b) the counterclaim brought by the Defendants against Hon Hai, the Company, Futaihong and Hong Fu Jin for, *inter alia*, unlawful interference with business and economic interest, defamation and conspiracy to injure by unlawful means.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Group.

## 7. EXPERT AND CONSENT

The following is the qualification of the expert who has given advice which is contained in this circular:

Name	Qualification
Halcyon Capital Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, the Independent Financial Adviser (i) was not beneficially interested in any shareholding, directly or indirectly, in any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and (ii) had no direct or indirect interest in any assets which had been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

## 8. GENERAL

- (a) The registered office of the Company is located at P. O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands, and the head office of the Company is at No. 4 Minsheng Street, Tucheng District, New Taipei City 236, Taiwan.
- (b) The principal share registrar and transfer office of the Company is 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.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The company secretary of the Company is Ms. WONG Kin Yan, Vanessa, who is a fellow member of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators).
- (e) The English text of this circular shall prevail over the Chinese text in case of any inconsistency between the two.

**9. MATERIAL CONTRACT**

The following contract (not being a contract that was entered into in the ordinary course of business of the Group) was entered into by members of the Group in the two years immediately preceding the date of this circular, and which is material:

- the joint venture agreement dated 24 August 2021 entered into among the Company, Wonderful Stars Pte. Ltd., Stellantis N.V. and Mobile Drive Netherlands B.V..

**10. DOCUMENTS ON DISPLAY**

A copy of the following documents is published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.fihmb.com>) for a period of 14 days from the date of this circular up to and including 6 January 2022 (both dates inclusive):

- (a) the letter from the Independent Board Committee, the text of which is set out on page 17 of this circular;
- (b) the letter from the Independent Financial Adviser, the text of which is set out on pages 18 to 36 of this circular; and
- (c) the written consent referred to in the section headed “7. *Expert and Consent*” in this Appendix.